Annual Report at 31 December 2018

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This report has been translated into English from the Italian original solely for the convenience of international readers.

Company name, share capital and registered office

Company name:	Rai Way S.p.A.
Share capital:	€ 70,176,000 fully paid-up
Registered office:	Via Teulada, 66 – 00195 Rome
Tax and VAT code:	05820021003
Company website:	www.raiway.it

Subject to management and coordination by Rai – Radiotelevisione Italiana S.p.A.
The Company has no secondary offices.

Corporate Bodies and Committees [1]

Board of Directors

Chairperson
Raffaele Agrusti

Chief Executive Officer
Aldo Mancino

Directors
Joyce Victoria Bigio
Fabio Colasanti
Anna Gatti
Umberto Mosetti
Donatella Sciuto
Gian Paolo Tagliavia
Paola Tagliavini

Secretary to the Board

Giorgio Cogliati

Board of Statutory Auditors

Chairperson
Silvia Muzi

Standing Auditors
Maria Giovanna Basile
Massimo Porfiri

Substitute Auditors
Nicoletta Mazzitelli
Paolo Siniscalco

External Auditors

PricewaterhouseCoopers S.p.A.

Control and Risks Committee

Paola Tagliavini (Chairperson)

Fabio Colasanti

Donatella Sciuto

Remuneration and Appointments Committee

Anna Gatti (Chairperson)

Joyce Victoria Bigio

Umberto Mosetti

[1] In office at the date of this report.
Information on the powers assigned within the Board of Directors and the Company's system of corporate governance in general can be found in the Report on Corporate Governance and Ownership Structures relating to the year 2018, published on the Company website (www.raiway.it).

LETTER TO SHAREHOLDERS

Dear Shareholders,

2018 was for Rai Way a year of further implementation of its strategy in pursuing the objectives of the 2015-2019 Industrial Plan. The results achieved and the economic and financial indicators confirm the effectiveness of the actions put in place and show a progress compared to 2017.

Also in 2018 the Company supported Rai in relation to the provision of both ordinary network services within the scope of the Service Contract and of new services, so-called evolutionary services. With particular reference to the supply of evolutionary services to Rai, the tidying up of radio-links in the 3.6-3.8 GHz band and the extension of the transmission service of DAB+ digital radio along the stretch of motorway between Turin and Trieste were implemented. The activity with Rai, which benefited from the renewal of the Concession for the public service, was also focused on the completion of the pipeline of contracts included in the Industrial Plan but also on the definition of the activities necessary to the imminent transition imposed by the refarming of the 700 MHz band. July saw the finalisation of an important agreement for the extension of coverage of the thematic MUXes, one of the main contract of the Industrial Plan, which will not only have positive impact on the business in terms of future development investments and revenues – higher than those originally forecasted thanks to the greater overall scope of the contract – but will also allow to offer citizens a more capillary and better quality service.

The component of business related to third-party customers experienced a slowdown in 2018 mainly due to the continued pressure in the mobile network operators segment. However, also in order to mitigate this effect, the Company accelerated its differentiation process and registered encouraging growth rates in the activities for Corporate and Broadcasting Radio/TV customers, which coupled with the progress in the Fixed Wireless Access Providers (FWAP) segment.

All the key performance indicators confirm the upward trend already shown in previous years. Revenues amounted to € 217.7 million, higher than in 2017 due to the growth in new services for Rai and the contribution of inflation. The higher volumes and, in particular, the further improvement of operating efficiency resulted in an Adjusted EBITDA of € 118.3 million, with a margin on revenues higher than 54%. In terms of net result, the € 59.7 million registered in 2018 allowed to reach and exceed the 2019 target one year in advance, so further increasing the return on equity generated by Rai Way. From a financial point of view, following the early repayment of the term line of the financing contract in place, at the end of the financial year the Company recorded net cash and cash equivalents of € 16.6 million, confirming the strong cash generation.

In 2018 the monitoring and reporting activities of social, environmental and governance performance continued. The projects implemented and the results obtained, illustrated in Rai Way's second Sustainability Report, attest to the attention paid to all stakeholders and highlight an even greater awareness of Rai Way's role in the development of the communities and territories in which it operates.

The immediate future will be characterised by particularly challenging contextual, regulatory and market factors. However, the financial solidity of the Company, its competencies and the constant dedication to innovation will ensure that it can address these uncertainties with confidence, working so that Rai Way is confirmed as the protagonist and leader, also in the future, in the distribution of radio and television signals in Italy.

RAI WAY’S ACTIVITIES

Rai Way (hereafter the Company) is a leading provider of integrated network infrastructures and services for broadcasters, telecommunication operators, public companies and public administrations; the Company uses its own assets and its own competences to guarantee to the public radio and television service providers a nd to the other customers the broadcast of television and radio contents in Italy and abroad, leveraging on its infrastructures as well as on a best-in-class technological, engineering and management know-how gained over 90 years of activity.

Since 2014 Rai Way has been listed on Borsa Italiana’s Main Market (MTA) following the Global Offering promoted by the shareholder Rai, which allowed the Company to confirm its already initiated opening to the market, reinforcing its image as an independent enterprise.

In carrying out its activities, Rai Way operates over 2,300 sites equipped with infrastructure and systems for transmitting and broadcasting radio signals throughout Italy, has 22 operating facilities distributed across the country and avails itself of a highly specialized workforce.

The services offered by the Company include:

(i) Broadcasting services, meaning services for the terrestrial and satellite transmission of television and radio signals, through the network infrastructure, to the final users within a geographical area;

(ii) Transmission services, for the transmission of radio and television signals via the dedicated network (radio links, satellite, fibre optic) and in particular the provision of Contribution Services, meaning one-directional transport services;

(iii) Tower Rental services, meaning hosting of third party broadcasting and transmission equipment at Company's sites including, were required, maintenance services as well as other complementary activities;

(iv) Network services, which consist of a vast range of heterogeneous services which the Company is able to provide in relation to electronic and telecommunications networks in general such as, for example, planning and consultancy services.

The services mentioned are offered by Rai Way to different categories of customers: Broadcasters (a category that also includes local and national radio and television network operators and players, which includes Rai), telecommunication operators (mainly MNOs, or Mobile Network Operators), public administrations and private companies.

MAIN ALTERNATIVE PERFORMANCE MEASURES

The Company assesses performance on the basis of certain measures not considered by IFRS. Set out below is a description of the components of the indicators that are important for the Company as stated in Recommendation CESR/05–178b.

- Gross operating profit or EBITDA – earnings before interest, taxes, depreciation and amortization: this is calculated as profit before income taxes, depreciation, amortization, write-downs and financial income and expenses. EBITDA also excludes profits and losses from managing equity investments and securities, as well as gains and losses arising from the sale of equity investments, which are classified in the financial statements as "financial income and expenses".
- Adjusted gross operating profit or Adjusted EBITDA – earnings before interest, taxes, depreciation and amortization: this is calculated as profit before income taxes, depreciation, amortization, write-downs and financial income and expenses, adjusted to exclude non-recurring expenses/income.
- Net operating profit or EBIT – earnings before interest and taxes: this is calculated as profit before income taxes and before financial income and expenses, without adjustment. EBIT also excludes profits and losses from managing equity investments and securities, as well as gains and losses arising from the sale of equity investments, which are classified in the financial statements as "financial income and expenses".
- Net Invested Capital: this is defined as the sum of Fixed Assets and Net Working Capital less Provisions.
- Net Financial Position or NFP: the format for the calculation of NFP is the one provided in paragraph 127 of CESR Recommendation 05-054b, which implements Regulation (EC) no. 809/2004.

SUMMARIZED ECONOMIC AND FINANCIAL DATA

The following is a summary of economic data of Rai Way at 31 December 2018 compared to the results at 31 December 2017. In addition, figures are also provided for the Company's Net Financial Position and Net Invested Capital at 31 December 2018 compared to equivalent figures at the close of the previous financial year. The changes and percentages shown in the following tables are calculated using values expressed in Euros.

Main indicators

€ / M

(figures in millions of euro: %)	2018	2017	Delta	Change %
Key income statement figures				
Core revenues	217.7	216.2	1.5	0.7%
Other revenues and income	0.1	0.8	(0.6)	(81.6%)
Personnel costs	(45.4)	(45.8)	0.5	1.0%
Other operating costs	(54.2)	(55.7)	1.4	2.6%
Adjusted EBITDA	118.3	115.5	2.8	2.4%
Operating profit (EBIT)	83.8	81.4	2.4	3.0%
Net income	59.7	56.3	3.5	6.2%
Key balance sheet figures				
Capital Expenditure (Capex)	27.0	16.3	10.7	65.9%
of which maintenance	19.4	12.5	6.9	55.2%
Net Invested Capital	164.3	181.2	(17.0)	(9.4%)
Shareholders' Equity	180.8	176.4	4.4	2.5%
Net Financial Position (NFP)	(16.6)	4.8	(21.4)	N.M.
of which cash/cash equivalents	(17.2)	(55.9)	25.4	31.3%
Ratios				
Adjusted EBITDA / Core revenues (%)	54.3%	53.4%	0.9%	1.7%
Net income / Core revenues (%)	27.4%	26.0%	1.4%	5.4%
Maintenance Capex / Core revenues (%)	8.9%	5.8%	3.1%	54.1%
Cash conversion (%)	83.6%	89.2%	(5.6%)	(6.3%)
NFP / Adjusted EBITDA (%)	N.M.	4.2%	N.M.	N.M.

- Core revenues amounted to € 217.7 million, up 0.7% compared to the values at 31 December 2017.
- Adjusted EBITDA amounted to € 118.3 million, up € 2.8 million compared to the values at 31 December 2017. The increase is due mainly to the increase of € 1.5 million in core revenues, the reduction of € 0.5 million in personnel costs, and the reduction in other operating costs of € 1.4 million. The Company defines this measure as EBITDA adjusted for non-recurring expenses.
- The ratio between adjusted EBITDA and core revenues was 54.3% compared to 53.4% at 31 December 2017.
- Operating profit (EBIT) amounted to € 83.8 million, an increase of € 2.4 million compared to the figure recorded at 31 December 2017.
- Net income was € 59.7 million, up 6.2% compared to 31 December 2017.
- Capex of € 27.0 million relates to the maintenance of network infrastructure and development projects.
- Net invested capital amounted to € 164.3 million, with a net cash for € 16.6 million and a shareholders' equity of € 180.8 million.

REPORT ON 2018 OPERATIONS

GENERAL INDICATIONS AND THE OVERALL PERFORMANCE OF THE ECONOMY[2]

After a period of sustained expansion, global growth experienced a slowdown in 2018 and stabilised at 3.6%. This slowdown, concentrated in the second half of the year, was affected by activities in some advanced economies not meeting their expectations, activities on financial markets affected by negative sentiment, uncertainties in trading policies and doubts on China's growth perspectives. At global level, the forecasts for 2019 indicate that growth will continue at a further reduced rate of 3.3%.

In the USA, GDP is expected to grow by 2.9% in 2018 compared with the 2.2% recorded in 2017, as a result of fiscal stimulus and favourable financial conditions, in spite of repeated increases in interest rates. The strong internal demand, still only partially affected by trading tensions, will continue to support the economy, even though at slower rates, also in the next two years.

The growth of economic activity in the Eurozone in 2018 was 1.8% compared to 2.5% in 2017. Despite a decrease had been already forecasted, the slowdown in the second half of the year was more pronounced than expected due to a combination of factors, both internal and external: a global slowdown, trading, political and social tensions and the decrease in activities in some key countries such as Germany, France and Italy. Even though fundamentals remain positive, the persisting uncertainty on these issues, combined with the possible outcomes of Brexit, are at the root of estimates for continued growth in 2019, but at a further decreasing rate (1.0%).

The GDP of emerging countries increased in 2018 by 4.6%, 0.1% less than in 2017, as a result of China's decrease – from 6.9% in 2017 to 6.6% in 2018 – partially offset

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[2] Interim Economic Outlook Forecasts: March 2019; OECD.
Economic Bulletin 1 / 2019; Bank of Italy

by the growth in India, which increased from 6.7% to 7.0%, and in Russia, from 1.5% to 2.3%.

On the commodities market, the oil price at the end of 2018 was around $55/barrel after a last quarter characterised by high volatility, a result of production dynamics but also of fears of a weakening in global demand.

Inflation in advanced economies remained generally contained. With particular reference to the Eurozone, inflation experienced a marked decrease in the second half of the year, mainly due to lower energy prices. Net of this effect, core inflation remained essentially flat. For this reason, the accommodating economic policy put in place by the ECB should continue with interest rates at minimal levels and significant monetary stimulus to support prices in the middle term, in spite of the announcement in December that Quantitative Easing was coming to an end. On the contrary, in the USA the FED continued steadily with the normalisation of monetary policies by increasing interest rates four times in 2018. However, in light of possible variations in scenarios, a more patient approach is expected in 2019.

In 2018 Italy's GDP rose by 1.0% over the previous year, which had been characterised by a growth of 1.6%. Correcting this for the effects of the calendar, with 2018 having two working days less than 2017, the increase is 0.9%. This reduction affected both investments and household expenditure, offset as usual by foreign trade, with a more marked increase in exports compared to imports.

In 2018 inflation recorded an average value of +1.2%, in-line with the previous year. However, in December there was a slowdown in values compared to the previous year (+1.1% recorded in December compared to +1.6% in November). This was affected by the consistent decrease in unregulated energy prices and, to lesser extent, in processed food prices, only partially offset by the increase in prices for transport services.

The labour market overall showed progress in terms of the number of people working, mainly thanks to fixed-term contracts, hours worked per person and wages, up by 1.4% over the previous year. The unemployment rate in Italy was around 10.5%, down from around 11.2% in 2017.

There was a marked decrease, however, in the volume of activities of Italian companies, especially in the manufacturing sector. Expectations in relation to both the general economic situation and the outlook for demand, especially with reference to the national component, are also negative.

Credit offer conditions are overall positive with the cost of credit remaining generally contained in spite of tensions on the sovereign debt market which characterised the latter part of the year. The quality of credit continued to improve and the impact of non-performing loans was further reduced. From the point of view of capitalisation of banks, this has allowed to offset the negative effect deriving from the decrease in government securities prices.

Estimates for Italian economy in 2019 indicate a further weakening of the national economy, as a result of the reduced benefit of expansive economic policies and reduced investments – which would be affected by the increase in the cost of credit and the deterioration of enterprises' confidence also due to the worsening international trade prospects – and the limited support in household consumption which will in any case benefit from specific support measures introduced in the last Budget Law.

The Company's reference market

Rai Way is a leading operator in the Italian radio and television transmission infrastructure market. The main television transmission platforms in the television broadcasting market are as follows:

- DTT (Digital Terrestrial Television, free and pay television),
- DTH (satellite),
- IPTV (internet),
- cable TV.

Compared to the other countries of Western Europe, Italy is characterized by having a widespread diffusion of the DTT platform, far more than the others. In the other countries, the reduced extent of the use of the DTT platform is due to a broader and more competitive presence of satellite platforms (e.g. in the United

Kingdom and Germany), cable (e.g. Germany) and IPTV (France). The solid positioning of DTT in the Italian broadcasting scenario is further supported by the absence of cable TV (at a European level operators capable of providing television services via cable usually represent the strongest competitors on the market, as regards both television and broadband) and the still undeveloped penetration of IPTV.

Regarding the Italian radio market, programs are transmitted in both analogue and digital format (DAB - Digital Audio Broadcasting) and no expiry dates have been set for a switch-off of the analogue signal, in line with many other European countries.

As a consequence of the features of its network, Rai Way is able to provide its customers with tower rental services. In this respect Rai Way operates in the telecommunications towers sector which has two independent operators and the captive portfolios owned by MNOs (Mobile Network Operators).

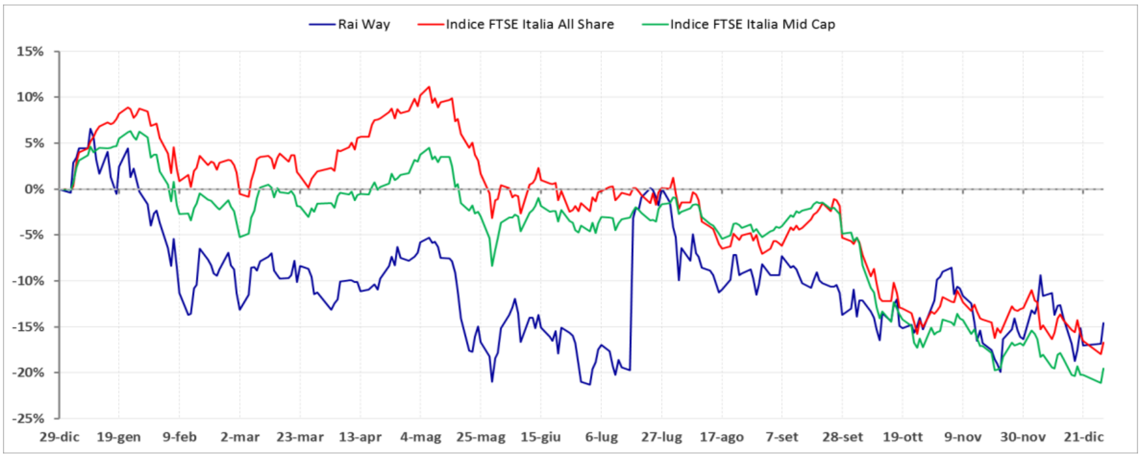
Rai Way on the financial markets [3]

After two distinctly positive years, in 2018 financial markets changed direction discounting the first signs of a slowdown in economic recovery at global level as well as some contextual dynamics such as the growing geopolitical and trading tensions and the political uncertainty, especially at the European level.

The Italian share market (FTSE Italia All Shares) closed 2018 at -16.7% (-13.9% adjusted for the distribution of dividends) with the marked worsening in the second half of the year also in consideration of the mentioned expectations on the slowdown of growth at global and national level. Increase in the spread (intended as the differential between the returns from Italian and German government bonds), which reached 254 basis points at the end of 2018, had a negative effect on prices of banks' stocks, the most representative in the index.

[3] Borsa Italiana data processing (www.borsaitaliana.it)

Rai Way's shares, which have been listed on the Borsa Italiana Electronic Stock Market since 19 November 2014 following completion of the Global Offering, performed negatively in 2018, with the price decreasing by 14.6% (10.6% adjusted for the distribution of dividends), a performance slightly above the market. This performance was guided by the general market context and by the regulatory and consolidation dynamics within the sector. Rai Way ended 2018 with a market capitalization of € 1,179.1 million.



The following table sets out key market figures:

Key market figures

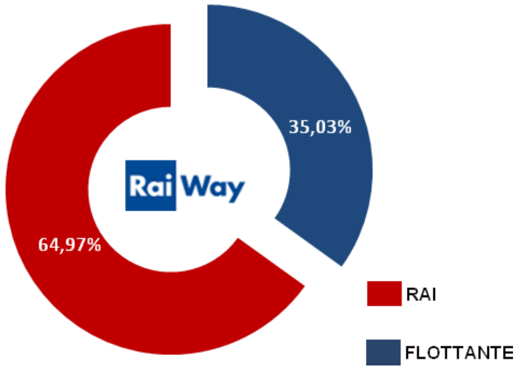
General data	ISIN	IT0005054967
	Number of shares	272,000,000
	Floating capital	35.03%

Price (Eur; %)	Price on placement (19/11/2014)	2.95
	Price at 31/12/2017	5.075
	Price at 31/12/2018	4.335

	Performance at 31/12/2018 vs. placement	+46.95%
	Performance at 31/12/2018 vs. 31/12/2017	-14.58%
	2018 Price maximum (closing)	5.41
	2018 Price minimum (closing)	3.995
Volume ('000)	2018 average volume	107.519
	2018 maximum volume	1,510.736
	2018 minimum volume	14.236
Market capitalization (€ million)	Capitalization on placement (19/11/2014)	802.4
	Capitalization at 31/12/2017	1,380.4
	Capitalization at 31/12/2018	1,179.12

Shareholding structure

During 2018 the percentage of Rai Way's share capital held respectively by Rai-Radiotelevisione Italiana Spa and by the market remained stable.



Trading performance

During the financial year Rai Way's commercial initiatives were focused on the continuing support, as in previous years, to the main customer Rai and on the analysis and scouting of new potential markets, with a view to extending services and diversifying the offer. 2018 was also a significant year in terms of growth of volumes and values of services offered, and the premises for further significant development in the next three years have been put in place.

The most significant activities related to contribution services for sporting and institutional events, including the Winter Olympics in Pyeong Chang, the 2018 Football World Cup, the first night at the Scala and the 2018-2019 Champions League, offered with technological solutions able to guarantee a high level of reliability and in some cases also providing codification services and transport in 4K.

Rai Way has also concluded the first stage of a project for the extension of coverage of the digital terrestrial radio DAB+ transmission service which is set to continue with particular reference to the main motorway routes.

In the context of preparatory activities for the freeing of frequencies destined for the launch of 5G services, the Company has also completed the recanalization activities relating to the portion of radio link network in the 3,600 MHz – 3,700 MHz band, and started the recanalization of the portion of 3,700 MHz – 3,800 MHz band already freed at the end of the financial year. Lastly, in the context of the process of improvement of the quality and the expansion of the RAI offer, preparatory activities have been initiated for the extension of the cover of Rai thematic MUX over the national territory following the finalisation of an important agreement with Rai which anticipates reaching 95% of the population, in line with the provisions of the Rai - MISE Service Contract.

In 2018 the market for Tower Rental services, the greatest contributor to revenues from third parties, continued to experience pressure as a result of the optimisation actions started by MNOs made necessary by the competitive environment which was characterised by the launch of the commercial offer by the new incoming operator and by investment made for the acquisition of frequencies to be used for 5G services. During the financial year, Rai Way continued to experience progressive growth in commercial relationships with other categories of customers, finalising new agreements and developing already existing ones with new FWAP operators and with operators from other sectors with a positive impact on turnover. A contract was signed with a primary market player which anticipates the use of sites made available by Rai Way to cover areas with isolated settlements through the use of Fixed Wireless Access technology with the minimum transmission speed of 30 Mpbs; Rai Way has therefore further confirmed its ability to make a practical contribution to the development of innovative digital services. In relation to broadcast TV and radio customers, Rai Way has undertaken numerous initiatives aimed at developing new services relating to pure hospitality of equipment and antennae, promoting a commercial proposal aimed at the supply of an end-to-end service typical of network operators.

In the context of consultancy services offered by Rai Way, it is important to highlight the activity carried out for the Ministry of Communications in Indonesia in relation to the process of analogical television switch-off. In particular, the Company, on the strength of its experience matured in the Italian market, has contributed to the regulatory and evolution aspects of the business model of the entire segment, confirming its value as a reference point at international level with regard to know-how and experience in the radio and television sector.

Calling upon several years of know-how in the management of networks and broadcast services, a fundamental role is played by innovative initiatives launched over the course of the year just ended aimed at identifying business areas that could increase the value of Rai Way's assets in the medium term and guarantee the necessary support for growth (see paragraph "Research and development").

It is also noted that Rai Way, already a holder of the ISO 9001:2015 certification for the provision of services for planning and ordinary maintenance of plant and networks for the diffusion and transmission of radio and television signals, in 2018 expanded its ISO 9001:2015 certification to services for the supply of infrastructures and network services for broadcasters and telecommunications operators, consolidating its position in Quality Management System.

Significant events

The main events of the year were as follows:

- on 16 February 2018 the Company reported that it had submitted, with F2i Fondi Italiani per le Infrastrutture SGR S.p.A. ("F2i"), a binding joint bid, subject to certain conditions, within the process of the potential sale of Persidera S.p.A. ("Persidera") launched by the latter's shareholders. The bid, which subsequently lapsed, indicated the structure of the transaction, with the acquisition by F2i of ownership of the rights to use the frequencies currently issued to Persidera for its own DTT multiplexes, the acquisition by Rai Way of the network infrastructure, and the stipulation of a multi-year agreement for the provision of broadcasting services.
- on 21 March 2018, the Board of Directors approved the 2017 draft financial statements, which closed with a profit of € 56.3 million, and a proposal to distribute a dividend of € 0.2026 per share.
- on 23 April 2018 the Shareholders' Meeting of Rai Way approved the Company's 2017 financial statements and the distribution of a dividend as proposed by the Board of Directors; appointed the Board of Statutory Auditors for the 2018-2020 financial years, the chairman of the same, as well as determined the remuneration of the relative components; approved the proposal submitted by the Board of Directors for a new

authorization for the purchase and disposal of treasury shares, after withdrawing the authorisation granted on 28 April 2017, and voted in favour of approving Section One of the Remuneration Report prepared by the Board of Directors pursuant to article 123-ter, paragraph 6, of Legislative Decree 58/1998.

- on 9 July, the Company instructed Mediobanca, in its capacity as agent bank under the loan agreement entered into by the Company with Mediobanca, BNP Paribas S.A., Intesa Sanpaolo S.p.A. and UBI Banca Società Cooperativa per Azioni on 15 October 2014, to proceed as of 30 July 2018 with the full and voluntary early repayment of the term facility, amounting to € 45,000,000.00 at 30 June 2018.
- on 25 September 2018, the Company announced having made a binding offer to the shareholders of Persidera S.p.A., subject to some conditions, for the acquisition of the network infrastructure and the relative activities of this company (the offer subsequently expired).
- on 13 December 2018, the Company announced the alternation, with the agreement of the involved Directors, with effect from 1 January 2019, between Umberto Mosetti and Donatella Sciuto (both independent) in the context of Board Committees, the former joining the Remuneration and Appointments Committee and the latter the Control and Risks Committee.

Safety and the environment

As confirmation of the emphasis placed on safety at work and environmental issues, it is noted that the Company also obtained ISO 14001:2015 and OHSAS 18001:2007 certifications in 2018. The ISO 14001:2015 certification attests to compliance of the Company's environmental management system with the requirements of that standard, with specific respect to the environmental effects of electromagnetic radiation and the proper disposal of waste water, as well as to the prudent management of hazardous substances and waste. The OHSAS

18001:2007 certifications attest to compliance of the Company's occupational health and safety management systems with the requirements of that standard, with specific respect to the "Planning and management of networks and systems for transmitting and broadcasting radio and television signals in Italy and abroad".

Results for the year

In 2018, the Company recorded a net profit of € 59.7 million representing an increase over the previous year corresponding figure of € 3.5 million (+6.2%).

A summary of the Company's income statement for the years ended 31 December 2018 and 31 December 2017 is set out in the following table:

Income statement

Income statement
€ / M

(figures in millions of euro; %)	2018	2017	Delta	Change %
Revenues from RAI	184.6	181.0	3.6	2.0%
Revenues from third parties	33.1	35.2	(2.1)	(5.9%)
Total core revenues	**217.7**	**216.2**	**1.5**	**0.7%**
Other revenues and income	0.1	0.8	(0.6)	N.M.
Personnel costs	(45.4)	(45.8)	0.5	1.0%
Other operating costs	(54.2)	(55.7)	1.4	2.6%
Adjusted EBITDA	**118.3**	**115.5**	**2.8**	**2.4%**
EBITDA Margin	*54.3%*	*53.4%*	*0.9%*	*1.7%*
Non-recurring costs (adjustments)	(1.2)	(1.7)	0.6	32.8%
EBITDA	**117.1**	**113.8**	**3.3**	**2.9%**
Depreciation and amortisation	(32.9)	(33.6)	0.6	1.9%
Bad debt provisions	(0.3)	(0.9)	0.6	N.M.
Provisions	(0.1)	2.1	(2.2)	N.M.
Operating Profit (EBIT)	**83.8**	**81.4**	**2.4**	**3.0%**
Net financial income (expenses)	(1.2)	(1.6)	0.4	23.2%
Profit before income taxes	**82.5**	**79.7**	**2.8**	**3.5%**
Income taxes	(22.8)	(23.5)	0.7	2.9%
NET INCOME	**59.7**	**56.3**	**3.5**	**6.2%**
NET INCOME margin	*27.4%*	*26.0%*	*1.4%*	*5.4%*

Rai Way had revenues of € 217.7 million, an increase of € 1.5 million compared to the previous period (+0.7%).

The activities carried out for the Rai Group generated revenues of € 184.6 million, an increase of 2.0% compared to the previous year. The increase of € 3.6 million due to new services ("evolutionary services") for € 2.2 million and for € 1.4 million to the adjustment of the basic compensation to the inflation rate. With regards to the commercial activities with other customers, revenues from third parties were € 33.1 million, a decrease of € 2.1 million compared with the previous period mainly due to the economic effects of network optimisation actions implemented by the MNO customers, only partially offset by the growth in turnover of Fixed Wireless Access Providers (FWAP), Media and Other customers.

The Other revenues and income line shows a decrease of € 0.6 million compared with the same period of 2017 resulting mainly from the item "Compensation for damages", which in 2017 included compensation for the activities necessary for resuming the radio and television signal in a site.

Operating costs

Personnel costs – net of non-recurring costs for early retirement plan classified under adjustments – stood at € 45.4 million, continuing the downward trend already recorded in the previous financial year, with a further decrease of € 0.5 compared to 2017. This value is determined mainly by changes in the average number of personnel, which fell by 5 in the period in question, from 606 in 2017 to 601 in the corresponding period of 2018.

Other operating costs – which include consumables, services and other costs excluding non-recurring items – amount to € 54.2 million, down by € 1.4 million from the previous year. This improvement is the result mainly of the reduction in costs for services provided by RAI, due to the effect of increased efficiency, less hiring of transmission resources and lower local taxes on company property. Furthermore, a temporary reduction in maintenance costs has been achieved.

Other operating costs do not include the non-recurring costs for extraordinary operations that are not included in the calculation of Adjusted EBITDA.

Adjusted EBITDA amounted to € 118.3 million, an increase of € 2.8 million over the figure for 31 December 2017, representing a margin of 54.3%.

Reconciliation of EBITDA vs. Adjusted EBITDA

(figures in millions of euro; %)	2018	2017	Delta	Change %
Adjusted EBITDA	**118.3**	**115.5**	**2.8**	**2.4%**
Non-recurring costs	(1.2)	(1.7)	0.6	32.8%
EBITDA	**117.1**	**113.8**	**3.3**	**2.9%**

EBITDA amounted to € 117.1 million, an increase of € 3.3 million over the figure of € 113.8 million at 31 December 2017. The increase resulted from the lower non-recurring costs relating to the early retirement plan. Non-recurring costs also include the costs relating to initiatives for extraordinary transactions.

Operating profit (EBIT) of € 83.8 million represents an improvement of € 2.4 million over 2017, due also to a € 0.6 million reduction in amortization and depreciation and to a € 0.6 million reduction for bad-debt provisions. The change in provisions, which in 2017 benefited from the release of € 4.0 million due to the positive conclusion of civil proceedings, was negative.

With regards to financial expenses, a balance of € 1.2 million is recorded with an improvement of € 0.4 million from the previous period as a result of less interests to banks deriving from the early full repayment of the term credit line.

Net profit amounted to € 59.7 million, showing an increase of € 3.5 million over 2017.

Investments

Capital expenditure in 2018 amounted to € 27.0 million (€ 16.3 million in 2017), of which € 19.4 million relating to the maintenance of the Company's network infrastructure (€ 12.5 million in 2017) and € 7.6 million to the development of new initiatives.

Investments

(amounts in million of Euro; %)	2018	2017	Delta	% change
Maintenance Investments	**19.4**	**12.5**	**6.9**	**55.2%**
Development Investments	**7.6**	**3.8**	**3.8**	**101.2%**
Total Investments	**27.0**	**16.3**	**10.7**	**65.9%**

In continuity with previous year, the most relevant maintenance investments were related to the renewal of transmission and radio equipment for radio service to ensure higher levels of service reliability and availability. Investments for the improvement and optimisation of the IP control network as well as for virtualisation of management systems to meet the connectivity needs between equipment, systems and users have also continued. Development investments related mainly to the replacement of some transmission links operating in the 3695 MHz-3800 MHz frequency band to meet the obligation to release the relative frequency bands to be destined for the development of 5G fifth generation mobile telephone services and the extension of the DAB+ service with the realisation of new posts along motorway sites.

Statement of financial position

(amounts in million of Euro; %)	2018	2017	Delta	% change
Fixed assets	194.2	200.3	(6.1)	(3.0%)
Net working capital	(1.2)	11.2	(12.4)	(110.6%)
Provisions	(28.7)	(30.3)	1.5	5.1%
NET INVESTED CAPITAL	**164.3**	**181.2**	**(17.0)**	**(9.4%)**
Shareholders' Equity	180.8	176.4	4.4	2.5%
Net Financial Position	(16.6)	4.8	(21.4)	(442.0%)
TOTAL FUNDING	**164.3**	**181.2**	**(17.0)**	**(9.4%)**

Net Invested Capital at 31 December 2018 is € 17.0 million below 31 December 2017 level due mainly to the lower Net Working Capital, due to the improvement in third-party receivables and the reduction in fixed assets. The Company had a Net cash position of € 16.6 million, improved by € 21.4 million from 31 December 2017 due to the effect of positive cash generation; see paragraph "Current and non-current financial assets and liabilities" (note 19) for more details.

Human Resources and Organization

Rai Way had a workforce of 585 people at 31 June 2018 employed on a permanent basis: 21 executives, 138 middle managers, 408 technicians or office staff and 18 workers. 13 other workers with fixed-term employment contracts and 17 apprentices are to be added to the above. The following table sets out information regarding the composition, age and education of personnel.

	Executives			**Middle managers**			**Technicians/office**			**Workers**		
Years	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**
Men (annual average value)	17	18	16	113	118	115	371	336	345	33	31	22
Women (annual average value)	5	6	5	20	23	24	74	75	79	0	0	0
Average age	51	51	52	52	52	52	46	43	44	56	56	57
Working seniority	15	16	16	26	25	25	18	13	16	30	29	26
Graduates (%)	95	96	95	39	41	41	19	21	22	0	0	0
Upper secondary school (%)	5	4	5	61	59	59	78	77	75	71	74	78
Lower secondary school (%)	0	0	0	0	0	0	3	2	3	29	26	22

In 2018, from a strategic point of view of enhancing the value of human capital and with a focus on development of open and collaborative leadership models, supported by a further emphasis on personnel training in technical/soft skills and experimental introduction of virtual organisation models, HR activities translated into:

- development of the company’s organisational model in function of the technological and business challenges faced, in a competitive scenario framework;
- continuation of generational exchange initiatives and parallel activation of selective processes aimed at digital and soft skills focused on network intelligence, with inclusion of specialist personnel in the various company structures (in particular, integration of technical areas and market-oriented components);
- constant appreciation of results and behaviours expressed by personnel, enriched with instruments for the conciliation of employees' well-being needs;
- planning of systems/processes enabling a digital framework aimed at the development of competition and the constant alignment with compliance profiles and risk prevention/management;
- configuration of flexible working models aimed at introducing new organisational smart solutions and work-life balance options;
- implementation of strategic training plans to enhance the knowledge of the components of the emerging digital echo system and to facilitate the upgrading of competencies with focus on open innovation and the development of a mindset oriented towards entrepreneurship.

In general terms, Rai Way’s system of remuneration and incentives aims to reflect and support coherence and quality at the company’s organisational level and the valorisation of merit in terms of appreciation of the results achieved and qualitative performances and competitiveness with respect to best global practices.

We reference to strategic management, cardinal elements of the remuneration policy have been the correlation with strategies and corporate principles, the internal coherence with respect to positions, areas of responsibility and the roles carried out, the competitiveness with remuneration levels in the external market as well as the adherence to the regulatory framework and reference to best market practices.

New directives with respect to Trade Unions negotiations have been introduced which have led to a consolidation of industrial relationships, also to ensure full functionality for work organisation models on the territories ratified by the Agreements signed at local and national level.

Attention to the social dimension continued with the implementation of curricular and extracurricular apprenticeships and school-work alternation programmes, including company events, both internally (with reference to the second edition of the company's Prize for Innovation, which rewards the contribution of employees in terms of evolutionary configuration plans and/or simplification of processes, models and systems) and externally, for the benefit of the company community and the school network.

Lastly, it is also highlighted that in 2018 Rai Way's Top Employers Italy certification as Employer of Choice was confirmed, a testimony to a corporate culture characterised by policies, strategies and priorities in line with best practices. The Company has also been awarded a prize among listed companies in the context of the Excellence and Innovation HR Award initiative promoted by the firm De Luca & Partners for the ability to plan combining competitiveness with the welfare of the company and its human resources.

Disclosures on the main risks and uncertainties faced by the Company

The pursuit of the corporate mission and the Company's results of operations, financial position and cash flows are affected by various potential risk factors and uncertainties. The main sources of risk and uncertainty are discussed in summary form below.

Risk factors related to the Company

Risks related to the concentration of revenues in a small number of customers

As a result of the concentration of the Company's clientele, any problem arising in trading relationships with the Company's main customers could have an adverse effect on its financial position, results of operations and cash flows.

The Company's largest customers are Rai and the main MNOs (Mobile Network Operators) in Italy with whom it enters into framework agreements for tower rental services, generally having a six-year term, with the commitment not to phase out a pre-determined number of stations for a three-year period. Please note that there is no certainty either that these relations will continue or that they will be renewed on their natural expiry. In addition, even if these arrangements are continued and/or renewed, there is no certainty that the Company will be able to keep turnover and/or the current contractual terms unaltered.

In addition to the above, as a consequence of the concentration of its revenues the Company is also exposed to the credit risk deriving from the possibility that its trade counterparties will be unable to fulfil their obligations.

The interruption to relationships with its main customers, the reduction in the number of stations, the inability to renew existing agreements on expiry or the non-performance by one of its trade counterparties could have a negative effect on the Company's business and its results of operations, financial position and cash flows.

Risks related to the New Service Agreement

Given the importance of the New Service Agreement with Rai to the Company's revenues, its financial position, results of operations and cash flows could suffer negative effects if such agreement is terminated – even in part – in advance, if the levels of the contractual services are not complied with or if there are significant increases in production costs (also as the result of measures taken by the competent authorities) that are not absorbed by a corresponding increase in the fee payable by Rai.

Risks related to the expiry and renewal of the Rai concession

By decree of the President of the Council of Ministers of 28 April 2017, Rai was established as the exclusive concessionaire for the public radio, television and multimedia service for the decade starting from 30 April 2017 to 30 April 2027.

The concession was renewed in accordance with article 9 of Law 26 October 2016, no. 198 (so-called Publishing Law) that, amending article 49 of Legislative Decree no. 177 of 31 July 2005 containing the Consolidated Act on audio-visual and radio media services, established a new procedures for granting public radio, television and multimedia concessions. If the concessionary agreement between the Italian government and Rai is terminated or not renewed on expiry, or if a renewal is stipulated under terms and conditions that differ from those currently existing, there could be material negative effects on the Company's results of operations, financial position and cash flows. There is a connection between the contractual relationship between the Italian government and Rai and the contractual relationship between Rai and the Company. As a result, the former has an effect on the latter. Pursuant to the Rai – Rai Way Service Agreement, the expiry and/or failure to renew the concession is an institutional modifying event which entitles Rai to withdraw from such by giving twelve months' notice.

Risks related to the stipulation of a new service agreement between Rai and the Ministry

At its meeting on 22 December 2017 the Council of Ministers made a final decision on the National Service Contract between the Ministry of Economic Development (MISE) and Rai for the period 2018 – 2022, after the expression, on 19 December 2017, of the opinion required from the parliamentary Commission for general guidance and monitoring for radio and television services. Rai's Board of Directors approved the text of the Service Agreement on 11 January 2018, published in the Official Journal on 7 March 2018.

Uncertainty persists however as to the technical specifications relating to the provision of the Public Service.

<u>Risks related to the ownership and/or potential modifications of the frequencies held by broadcasting customers</u>

The Company is not and has never been the owner of frequencies, which are normally assigned to its customers known as broadcasters, a category that also includes national and local radio and television network operators of which also Rai is part. The loss of ownership of frequencies on the part of broadcasting customers, in whole or in part, and/or the modification of the frequencies assigned to broadcaster, also including as a result of the planned process of reassigning the rights of use of the frequencies in the 694-790 MHz band, now used by broadcasters, to terrestrial bidirectional wide band mobile electronic communications services and the overall redesign of the use of the frequency spectrum by national and local broadcasters, could lead to a loss of customers for the Company or the redefinition of the scope of services provided to customers, with negative effects on the Company's revenues, as well as on its economic, financial and capital situation also for the effect of possible increases in costs and the investments that the Company could have to make.

In particular, it is noted that pursuant to the 2018 and 2019 budget laws, all the frequencies assigned at national and local level for the territorial digital television service must be released according to a specific timetable by 30 June 2022 and the rights of use of the frequencies the national broadcasters hold at the date of entry into force of this law will be converted into rights of use of transmission capacity in national multiplexes (MUX). Pursuant to AGCOM Resolution no. 39/19/CONS, "National plan of assignment of frequencies to be destined to terrestrial digital television service (PNAF)", it is required that national broadcasters are allocated rights of use of transmission capacity equivalent to 12 national multiplexes, of which two are to be assigned through a payment procedure without competitive increases to be announced by 30 November

2019 by the Ministry for Economic Development, in place of the current rights of use of frequencies on 20 multiplexes.

With reference to Rai, there is a connection between Rai's ownership of its frequencies and the contractual relationship between Rai and Rai Way. Consequently, if ownership of the frequencies were to cease or be modified this would have an effect on that contractual relationship. Pursuant to the New Service Agreement, revocation of the availability of one or more frequencies (MUX) is an institutional modifying event which entitles Rai to withdraw from such, also partially, by giving twelve months' notice.

In relation to the scenario indicated by the 2018 and 2019 budget laws and by AGCOM Resolution no. 39/19/CONS, it is also highlighted that the impact of a possible also partial withdrawal by Rai from the New Service Contract could be limited by the effects deriving from new services to be offered to Rai in relation to network reconfiguration activities deriving from this process.

Risk related to the contractual and administrative structure of the Sites

Given the importance of Rai Way's network infrastructures for its business, negative events affecting such infrastructure could have negative effects on the Company's results of operations, financial position and cash flows.

In particular, among the potential risks relating to the contractual and administrative structure of the Sites is the risk that the agreements for the use of the Sites (other than those wholly owned by Rai Way) on which the infrastructures are located will not be renewed, with the resulting obligation for the Company to return the land used in its original condition, or the risk that any renewals will not be obtained on terms at least as favourable as those applicable at the balance sheet date, with resulting negative effects on the profitability from managing the Sites and consequently on the Company's results of operations, financial position and cash flows.

In addition, given the importance of the Company's property, any changes in existing taxes or the introduction of new taxes could have a material effect on the Company's tax charge.

Risks related to Rai's management and coordination activities

The Company is a member of the Rai Group and is subject to the management and coordination of the Parent Company pursuant to articles 2497 and following of the Italian Civil Code. Without prejudice to the above, the Company is capable of working in conditions of operational autonomy, to the extent appropriate for a listed company and in compliance with the best practices followed by listed issuers and in any case with the rules for the proper functioning of the market, generating revenues from its customers and using its own skills, technologies, human resources and funds. In particular, Rai carries out its management and coordination activities by the means described in the Management and Coordination Regulation which became effective on the First Trading Day (19 November 2014) and aims on the one hand to match the need for an informational link and functional interaction underlying Rai's management and coordination activities and on the other to ensure that Rai Way's status as a listed company leads to its operational and financial autonomy at all times.

In particular, Rai's management and coordination activity does not have the general character and is implemented exclusively through the following activities: (i) the drafting by Rai of certain general rules designed to coordinate – to the extent possible and in accordance with the respective needs – the main guidelines for the management of Rai and Rai Way; (ii) the requirement for Rai Way to inform the Parent Company in advance before approving or executing, depending on the case, any operations and/or transactions, determined and drawn up independently within Rai Way, that are considered to be of particular significance and importance with respect to the strategic lines and planning of the operations of the Rai Group; (iii) the communication by the Company to Rai of the information necessary or useful for management and coordination.

In no event does the Parent Company have any power of veto over any extraordinary operation that Rai Way may wish to perform or over the hiring or dismissal of executives by the Company, which has full and exclusive decisional power over matters of appointing or employing persons and setting their career paths.

Risks related to the powers of the Italian government (golden powers)

The ability of the Company to adopt certain corporate resolutions or the acquisition of certain equity investments in the Company by investors not resident in the European Union which are considered material for the purposes of control could be limited by the special powers of the Italian government ("golden powers") granted by Decree Law no. 21 of 15 March 2012 converted with amendments into Law no. 56 of 11 May 2012, which governs the government's special powers with respect, inter alia, to strategic assets in the communications sector, as identified by article 3 of Presidential Decree no. 85 of 25 March 2014.

Risks related to the Company's inability to implement its strategy or results of the implementation of activities not in line with expectations

The inability of the Company to successfully implement any of its strategies could lead to negative effects on its business and on its results of operations, financial position and cash flows.

Furthermore, owing to the dynamic context in which the Company operates, the applicable regulatory requirements, the uncertainty surrounding exogenous scenarios, the complexity of the reference business – also with reference to infrastructural and technological aspects – activities put in place by the company could have results not in line with expectations, with a negative impact on the Company's results of operations, financial position and cash flows.

Risks related to key personnel

If the relationship between Rai Way and its key personnel ends, this could have negative effects on the Company's business and its results of operations, financial position and cash flows.

The results achieved by Rai Way also depend on the contribution provided by people having key roles within the Company and who – in certain cases – have played a crucial role in developing the Company from the time of its establishment. At the balance sheet date, all these persons considered key for the purposes of the above are tied to the Company by permanent employment contracts.

Risks related to the licensing agreement for the brand name "Rai Way"

The use of the name "Rai Way" by the Company is directly connected with the continuation in force of the Brand Transfer and Licensing Agreement with Rai.

Although the name "Rai Way" does not have any specific importance for the purpose of identifying a product or service, given the particular nature of the business the Company performs, in the case of termination of the Brand Transfer and Licensing Agreement for any reason, the Company's right to use the name "Rai Way" would cease and accordingly the Company would no longer be able to use it and would have to change its corporate name.

Risks related to related party transactions

The Company has had and continues to have relationships of a trading and financial nature with related parties, and in particular with Rai and other companies of the Rai Group. These relationships have allowed and continue to allow the Company, depending on the case, to obtain benefits from the use of common skills and services, the use of Group synergies and the application of unified policies in the financial field; in the Company's opinion these provide for terms and conditions in line with those of the market. Despite this, there is no certainty that if these transactions had been carried out with third parties, such would have negotiated and stipulated the relative agreements, or carried out the transactions, under the same terms and conditions and by the same means.

Risks related to financial and other covenants contained in the New Loan Agreement

On 15 October 2014 the Company entered into a New Loan Agreement with Mediobanca, BNP Paribas, Intesa Sanpaolo and UBI Banca, which includes general undertakings and financial and other covenants, also of a negative nature, which although in line with market practice for loans of similar amounts and nature could impose significant restrictions on its business. Further details on this matter may be found in the section "Current and non-current financial assets and liabilities" in the notes to the financial statements.

Risks related to judicial and administrative proceedings and the possibility that the Company's provision for risks and charges may not be adequate

Should the courts find against the Company in the principal court proceedings to which it is party and should the Company incur losses that are significantly higher than the amounts provided in its financial statements, this could lead to negative effects on its business and its financial position, results of operations and cash flows. Without prejudice to these statements, the Company believes that the provisions recognized in its financial statements at the balance sheet date are adequate.

Risks related to the takeover of the Company

Given the interest held by the controlling shareholder Rai and given the legislative framework in which this exists, the Company cannot be taken over.

Risk factors related to the industry in which the Company operates

Risks related to obtaining administrative authorizations and/or to the fact that these may be revoked

The failure by the Company to obtain authorizations and permits or to obtain these late, the delayed issue of such authorizations and permits or the issue of authorizations and permits which only partially satisfy the Company's requests, together with the revocation of these authorizations and permits, could have negative effects on the Company's business and, consequently, on its results of operations, financial position and cash flows.

Risks related to the effects of natural disasters or other force majeure events on infrastructure

It is essential for the network to work properly if the Company is to conduct its business and provide services to its customers. Although the Company believes that its insurance coverage will adequately cover all the costs of any damage that may be caused by natural disasters or force majeure events, and that in any case it has operating procedures that will come into play if such events should occur, any partial or total damage to the Company's towers or, more generally, its Sites, and to its main locations such as its Control Centre and regional centres, caused by natural disasters or other force majeure events, could hinder, or in certain cases prevent, the Company from carrying out its normal operations and its ability to provide services to its customers, with possible negative effects on its business and on its results of operations, financial position and cash flows.

Risks related to the interruption of the activities of the technological and IT infrastructures

To provide its services and, more generally, to carry out its activities, the Company uses sophisticated infrastructure and computer technology, which by its nature is prone to interruptions or other malfunctions caused by, among other things, natural disasters, prolonged electricity outages, process errors, viruses and malware, the actions of hackers and security issues or failures of suppliers. The interruption of the activities of the technological and IT infrastructures could have negative effects on the Company's business and on its results of operations, financial position and cash flows.

Risks related to the maintenance and technological upgrading of the Company's Network

Rai Way's ability to maintain a high level of services depends on its ability to maintain the proper operating condition of its infrastructure, which requires substantial amounts of capital and long-term investment, included that related to the technological renewal, optimization or improvement of its existing Network. The Company's failure to maintain its Network or to introduce technological changes to the Network on a timely basis could have negative effects on its results of operations, financial position and cash flows.

The Company constantly monitors the proper operating condition of its Network, developing projects designed to improve the level of its services and enhance the infrastructure on the basis of the technologies applicable from time to time.

Risks related to technological change

The reference market in which Rai Way operates is characterized by constant changes in the technology used for the transmission and broadcasting of television and radio signals, which leads to the requirement: (i) to constantly develop the skills required for rapidly and fully understanding the needs of its customers, in order to develop its service offer on a timely basis with the aim of having a reputation on the market as a full service provider; and (ii) to provide constant training to its personnel.

Rai Way's inability to identify and develop the technological solutions required to deal with changes and future development on its markets of reference could have negative effects on the Company's results of operations, financial position and cash flows.

Risks related to increased competition

Significant increases in competition in the sectors of activity in which the Company operates – for example the entry into the Tower Rental market of players with notably small dimensions and aggressive pricing – could have a negative impact on the Company's results of operations, financial position and cash flows.

Risks related to environmental protection and electromagnetic radiation

The Company is subject to comprehensive regulation at national and EU level aimed at the protection of the environment and health. Compliance with such regulations and requirements, moreover, is one of the conditions for the eligibility for and renewal of licenses and permits which the Company requires for the installation and operation of equipment emitting electronic waves. Any breaches of the applicable environmental rules could have negative effects on the Company's results of operations, financial position and cash flows.

The Company places particular emphasis on complying with environmental protection regulations and undertakes to be constantly updated in this respect, as moreover attested by its 2008 ISO14001:2004 and 2011 OHSAS 18001:2007 certifications.

Risks related to the reference regulatory framework in relation to the business of the customers of Rai Way

The Company's business, as well as that of its customers, is subject to a wide-ranging regulatory regime, stemming from both domestic and EU rules and requirements, in particular with respect to administrative matters and environmental concerns, as part of which importance is also assumed by the numerous legislative requirements imposed by the competent authorities on the Company's customers, by virtue of the indirect effects which the failure of these customers to comply with such could have on Rai Way's business. In particular, broadcasting customers and mobile telephone operators which the Company hosts at its Sites are subject to the legislation designed to protect persons and the environment from exposure to magnetic fields.

Should any of Rai Way's customers be deemed to be in violation of these regulations, they could be exposed to sanctions, including the shut-down of transmission activities. These interruptions could have negative effects on the Company's revenues and, as a consequence, on its results of operations, financial position and cash flows.

Risks related to the possible decline in demand for services by customers

The Company provides integrated products and services to its customers with an approach geared towards full service hosting with the aim, on the basis of the operating model adopted, of covering the entire tower hosting chain – from the basic lease of equipment to all the services required to keep this in proper working order and provide maintenance for this at the Sites. The possible decline in the demand for the services carried out by Rai Way could have negative effects on the Company's results of operations, financial position and cash flows.

Risks arising from stoppages and strikes

In carrying out its business the Company is subject to the risk of strikes, stoppages and similar action by its employees in connection with events or circumstances that may not relate directly to the Company, but more generally to the Parent Company or the Rai Group. However, with regard to services provided to Rai, which are considered to be essential public services, the right to strike may only be exercised to the extent of enabling indispensable services to be provided, also by virtue of a trade union agreement of 22 November 2001 relating to the employees of the Rai Group.

The decision by large numbers of employees to take part in strikes or industrial action could have negative effects on the Company's results of operations, financial position and cash flows.

Risks related to global economic conditions

A possible decline by customers in the demand for the services carried out by Rai Way arising from the persistence of the global economic and financial crisis could have negative effects on the Company's results of operations, financial position and cash flows.

Financial risks

The Company may be exposed as a whole to the following financial risks:

- currency risk: currency risk was not significant in 2018 as the Company's operations are mainly concentrated in the European Union;
- interest rate risk: interest rate risk arose mainly in 2018 from the medium-term loan agreement entered with a syndicate of banks and divided into the following two credit facilities:
    - a term credit facility of up to € 120 million completely drawn down and fully repaid on 30 July 2018;
    - an unused revolving credit facility of up to € 50 million, unused at 31 December 2018.

To limit the fluctuation of interest expense affecting the Company's results and the risk of a potential increase in interest rates, in accordance with its financial policy the Company has entered into an interest rate swap agreement with two banks to hedge the variable interest rate on this loan for a total notional amount of 50% of the loan, equally allocated between the two banks. With the full and early repayment during the financial year of the term loan, the relative IRSs have also been terminated and therefore, as there is no longer an interest rate risk, there are no active hedges for the this risk at 31/12/2018.

- the liquidity risk is connected with the Company's ability to meet the commitments arising mainly, at specific times during the financial year, from its financial and tax liabilities. As indicated in the previous point, to meet these commitments the Company has retained a revolving credit facility to be used to support net working capital and general needs where necessary. In fact, the Company is able to satisfy its commitments through the cash generated from operations.

A more detailed analysis may be found in the section of the Explanatory notes entitled "Financial risk management".

Credit risk

In respect of credit risk it should be noted that in addition to Rai, the Company's main customers are public administration entities, leading telephone operators and various broadcasting companies that settle their obligations on a regular basis; this situation enables the Company to state that at the present time there are no particular risks connected with the failure to collect its receivables other than those discussed in the section of the notes entitled "Financial risk management", to which reference should be made for further details.

Requirements in relation to privacy

In the financial year, the Company has complied with the provisions of EU Regulation EU 679/2016 in force since 25 May 2018 and with the correlated implementing Italian Government decree no. 101/2018.

Research and development

Rai Way's research, development and innovation activities are multidisciplinary and aimed at identifying, checking and implementing ideal solutions for monitoring and improving the broadcast and transmission network, by collecting data and analysing factors that influence the quality of the service provided to customers and end users. To carry out these activities, Rai Way makes use of collaboration with Rai's Research and Technological Innovation Centre (CRIT).

In order to make the approach to innovation more structured, widespread and effective, an ad hoc department dedicated to innovation and research was recently established to prepare the Company for change, to acquire technological skills and new ideas, and to develop new services and new business capacities.

Within the framework of the innovation and research activities, Rai Way pursues the objective of developing new services, processes, organizational models and business models to ensure that the Company has a competitive advantage and is appropriately positioned with regard to the challenges linked to so-called disruptive technologies.

With regard to the most significant initiatives of 2018, the experimentation activities in cooperation with TIM, Fastweb and Huawei relating to 5G technology in the 3.7-3.8 GHz band in the areas of Bari and Matera continue, also with the presentation of the user case relative to the HD television contribution through the 5G network in order to make a practical contribution to the development of the demand for innovative digital services.

During the financial year, Rai Way has also coordinated a significant and complex technological scouting activity to identify possible solutions for the realisation of CDN services so as to guarantee high levels of QoE (Quality of Experience), also from a point of view of ever-increasing internet video and data traffic both in terms of users and of quality.

The Company has also initiated experimentation activities with an important partner in the civil aviation sector in relation to “out of sight” drones, analysing the most innovative technologies and services in this context with the objective to realise a proof of concept (POC).

Relationships with Rai Group Companies

Relationships of a commercial and financial nature were maintained with the Parent Company Rai - Radiotelevisione Italiana; relationships with other companies of the Rai Group were exclusively of a commercial nature. Further details may be found in the section "Related party transactions" in the Explanatory notes to the financial statements.

Transactions with related parties

Details of the transactions the Company carried out with related parties in the years ended 31 December 2018 and 2017, identified on the basis of IAS 24 Related Party Disclosures, are provided in the paragraph "Related party transactions" (note 38).

Treasury shares

The Company does not hold any treasury shares or shares of the Parent Company, and has not acquired or disposed of such, either directly or through a trustee company or third party.

Events subsequent to 31 December 2018

There are no significant events to report.

Business outlook

The Company envisages the following for 2019:

- a further organic growth in Adjusted EBITDA;
- maintenance investments in relation to core revenues in line with 2018 values.

Management and coordination

The Company is subject to the management and coordination of Rai pursuant to articles 2497 and following of the Italian Civil Code.

The key data of the Parent Company stated below in the summary form as required by article 2497-bis of the Italian Civil Code have been taken from the financial statements for the year ended 31 December 2017. It should be noted that the Parent Company Rai also prepares consolidated financial statements.

For a suitable and complete understanding of the financial position of Rai-Radiotelevisione Italiana S.p.A. at 31 December 2017 as well the result of the Company for the year then ended reference should be made to the financial statements which together with the auditors' report are available in the form and means prescribed by law.

RAI SpA - Financial statements at 31/12/2017
Summary report of key figures

Balance sheet at 31 December 2017

(in thousand of Euro)	**Financial year at 31 December 2017**
Tangible assets	877,147
Intangible assets	435,721
Equity investments	919,241
Non-current financial assets	4,586
Other non-current assets	8,420
Total non-current assets	**2,245,115**
Inventories	187
Trade receivables	293,014
Current financial assets	172,046
Current income tax receivables	19,506
Other current receivables and assets	95,647
Cash and cash equivalents	170,900
Total current assets	**751,301**
Total assets	**2,996,416**
Share capital	242,518
Reserve	587,181
Retained earnings (losses)	(21,304)
Total shareholders' equity	**808,395**
Non-current financial liabilities	372,825
Employee benefits	457,462
Provisions for non-current risks and charges	156,203
Deferred tax liabilities	47,809
Other non-current payables and liabilities	1,969
Total non-current liabilities	**1,036,268**
Trade payables	550,891
Provisions for current risks and charges	0
Current financial liabilities	151,161
Current income tax payables	29,959
Other current payables and liabilities	419,742
Total current liabilities	**1,151,753**
Total liabilities	**2,188,021**
Total shareholders' equity and liabilities	**2,996,416**

Comprehensive income statement

(in thousand of Euro)	**Financial year at 31 December 2017**
Revenues from sales and services	2,414,641
Other revenues and income	29,280
Total revenues	2,443,920
Purchase costs for consumables	(11,106)
Costs for services	(1,300,494)
Other costs	(46,335)
Personnel costs	(888,665)
Amortisation and depreciation	(289,802)
Provisions	(4,852)
Total costs	(2,541,254)
Operating result	**(97,334)**
Financial income	87,044
Financial charges	(14,176)
Result of equity investments valued with the equity method	(490)
Result before taxes	**(24,956)**
Income taxes	30,484
Result for the financial year - Profit (loss)	**5,528**
Components of the comprehensive income statement	3,398
Overall result for the financial year	**8,926**

Following the admission to trading and listing of the Company's shares, Rai continues to exercise control pursuant to article 93 of the Consolidated Finance Act and exercise management and coordination activities with respect to Rai Way. In the Company's opinion though, although it is subject to the management and coordination of Rai, it works in conditions of operational autonomy, generating revenues from its customers and using its own skills, technologies, human resources and funds. On 4 September 2014, the boards of directors of Rai and Rai Way, to the extent of their competence, approved the Management and Coordination Regulation of the Parent Company with respect to Rai Way in a manner completely different from that of the other companies of the Rai Group subject to management and coordination by Rai.

This Management and Coordination Regulation, which became effective on the date on which trading began in the Company's shares, aims on the one hand to match the need for an informational link and functional interaction underlying Rai's management and coordination activities and on the other to ensure that Rai Way's status as a listed company leads to its operational and financial autonomy at all times.

Rai mainly performs its management and coordination activities with respect to Rai Way in the following manner:

(a) the drafting of certain general rules designed to coordinate – to the extent possible and in accordance with the respective needs – the main guidelines for the management of Rai and Rai Way;

(b) the requirement for Rai Way to inform the Parent Company in advance before approving or executing, depending on the case, any operations and/or transactions, determined and drawn up independently within Rai Way, that are considered to be of particular significance and importance with respect to the strategic lines and planning of the operations of the Rai Group;

(c) the requirement for Rai Way to provide certain information necessary in accordance with the regulation and general operational guidelines.

Set out below are details of the relationships between Rai and Rai Way after the date on which trading began in the Company's shares and the resulting application of the regulation:

- Strategic planning (budget and business plan). The Board of Directors of Rai Way is independently responsible for drawing up and approving the Company's long-term strategic plans, business plans and financial plans, as well as its annual budgets, and Rai's coordination consists mainly of providing Rai Way with guidelines for the sole purpose of compliance with the Parent Company's financial covenants – where relevant – and requirements deriving from the concession of the Public Service granted to Rai.
- General management guidelines. Rai's duties include the drafting, through its organization, of general operational guidelines in order to unify the procedures of Rai and Rai Way, maximizing possible synergies and reducing the costs incurred. These objectives can be pursued by centralizing certain services, arranging for common procurement of supplies and adopting the Rai Group's standard documents and procedures.
- Extraordinary operations. Rai will have no power of veto over Rai Way's extraordinary operations. In accordance with regulations in force at the time regarding the acquisition, management and use of privileged information (price sensitive information) and market abuse, Rai Way will be required to provide prior information to Rai regarding certain specific operational activities and transactions, determined and drawn up independently by Rai Way, which assume particular significance and importance, having regard in particular to the strategic lines, projects and planning of the Rai Group's operations. The Parent Company's Board of Directors will be able to formulate comments and observations whenever it believes that the approval or execution by Rai Way of the significant operation is inconsistent with the strategic lines, initiatives and projects drawn up by Rai, or else is liable to jeopardize uniform management of the

Group. It is understood that Rai Way shall be entitled to assess such comments and observations without any requirement to comply with them.

- Communication of information. Without prejudice to the preceding, the Company will continue to report to the Parent Company, on a periodic basis, all the information that may be necessary or useful for performing management and coordination in accordance with the regulation, including the information required to prepare its consolidated financial statements pursuant to art. 43 of Legislative Decree no. 127 of 9 April 1991, its management report pursuant to art. 2428, paragraph 1, of the Italian Civil Code, as well as its periodic disclosures pursuant to art. 2381, paragraph 5, of the Italian Civil Code. Without prejudice to the above, Rai Way is responsible and bound to comply on an autonomous basis with all the requirements to provide continuous and periodic disclosures to the public and CONSOB.
- Personnel and remuneration policies. Rai Way has exclusive responsibility for every decision regarding the appointment and hiring of the Company's personnel and executives, the management of employment relationships and the establishment of remuneration policies, including setting the career paths and implementing the appraisal and incentive systems for executives, in respect of which Rai has no power of veto. The Parent Company may adopt specific procedures, which will also be autonomously implemented by Rai Way, directed solely towards compliance with transparency and non-discriminatory criteria which must be a distinct feature, among other things, of the procedures for appointing and hiring the personnel.
- Treasury relationships. Rai Way no longer has a centralized treasury relationship with Rai and has its own autonomous treasury. The Company has the competence and responsibility for drawing up and approving its financial policy, including risk management and liquidity management policies.

In addition, the Company has a Control and Risks Committee, which also carries out the functions of the Related Party Committee, and a Remuneration and Appointments Committee whose members are exclusively independent directors under the criteria established by article 148, paragraph 3 of Legislative Decree no. 58/1998, the Corporate Governance Code of Borsa Italiana S.p.A. and art. 16 (formerly art. 37) of CONSOB's Market Regulations. The Company has a Board of Directors, the majority of whose members are independent directors.

Report on corporate governance and ownership structures

The Report on Corporate Governance and Ownership Structures that has been prepared pursuant to article 123-bis of the Consolidated Finance Act may be consulted on the Company's website www.raiway.it.

Declaration of a non-financial nature

The Company, as an Entity of Significant Public Interest (EIPR), drafts and presents the "Declaration of a non-financial nature", in the form of a "separate report", as established by art. 5 Presentation of the declaration and publicity regime of Legislative Decree 254/2016 regarding the communication of non-financial information and information on diversity by certain large companies and groups. The aforementioned Declaration is accompanied by the report (certificate) issued by the auditor appointed in accordance with art. 3, paragraph 10, of Legislative Decree no. 254/2016.

It is published on the website www.raiway.it.

Rome, 14 March 2019

On behalf of the Board of Directors

The Chairman

Raffaele Agrusti

FINANCIAL STATEMENTS

INCOME STATEMENT AT 31 DECEMBER 2018 (*)

Rai Way S.p.A.

(Amounts in Euro)	**Notes** *(**)*	**12 months at 31/12/2018**	**12 months at 31/12/2017**
Revenues	6	217,726,975	216,195,849
Other revenues and income	7	146,561	795,806
Purchase of consumables	8	(956,270)	(1,341,110)
Cost of sevices	9	(50,324,789)	(50,946,605)
Personnel costs	10	(46,070,318)	(47,138,671)
Other costs	11	(3,414,376)	(3,802,454)
Bad debt provisions (***)	12	(324,320)	(933,940)
Depreciation, amortisation and other write-downs	13	(32,926,369)	(33,565,288)
Provisions	14	(71,378)	2,097,605
Operating profit (EBIT)		**83,785,716**	**81,361,192**
Financial income	15	3,467	75,106
Financial expenses	15	(1,240,582)	(1,686,765)
Total net financial income (expenses)		**(1,237,115)**	**(1,611,659)**
Profit before income taxes		**82,548,601**	**79,749,533**
Income taxes	16	(22,803,038)	(23,486,305)
Net income		**59,745,563**	**56,263,228**

COMPREHENSIVE INCOME STATEMENT AT 31 DECEMBER 2018

Rai Way SpA

(Amounts in Euro)	**Note** *(**)*	**12 months at 31/12/2018**	**12 months at 31/12/2017**
Net income		**59,745,563**	**56,263,228**
Items that will be recognised in the income statement			
Profit/(Loss) on cash flow hedge instruments	19	46,930	29,100
Tax effect		(13,370)	(8,296)
Items that will not be recognised in the income statement			
Acuarial Profit / (Loss) for employee benefits	29	434,334	497,347
Tax effect		(104,240)	(119,363)
Comprehensive income for the period		**60,109,217**	**56,662,016**

(*) Statement drawn un in compliance with International Financial Reporting Standards, issued by the International Accounting Standards Board and adopted by the Europen Union ("IFRS").

(**) The notes refer only to the items commented upon in these Explanatory Notes.

(***) At 31 December 2017 the balance of this item was in Depreciation, amortisation and write-downs

RAI WAY S.P.A. - BALANCE SHEET AT 31 DECEMBER 2018 (*)

(Amounts in Euro)	Notes (**)	12 months at 31/12/2018	12 months at 31/12/2017
Non-current assets			
Property, plant and equipment	17	180,938,014	188,686,465
Intangible assets	18	12,895,551	11,188,738
Non-current financial assets	19	1,659	53,846
Deferred tax assets	20	3,321,454	2,164,488
Other non-current assets	21	1,318,238	355,671
Total non-current assets		**198,474,916**	**202,449,208**
Current assets			
Inventories	22	885,928	892,161
Trade receivables	23	71,467,219	71,955,278
Other current receivables and assets	24	5,833,934	5,358,860
Current financial assets	19	54,729	146,453
Cash and cash equivalents	26	17,193,515	55,895,135
Current tax receivables	25	62,196	7,656
Total current assets		**95,497,521**	**134,255,543**
Total assets		**293,972,437**	**336,704,751**
Shareholders' equity	27		
Share capital		70,176,000	70,176,000
Legal reserve		14,035,200	12,160,733
Other reserves		37,078,970	37,045,410
Retained earnings	28	59,531,790	57,007,959
Total shareholders' equity		**180,821,960**	**176,390,102**
Non-current liabilities			
Non-current financial abilities	19	428,229	30,606,438
Employee benefits	29	15,092,129	16,443,209
Provisions for risks and charges	30	16,958,323	15,984,523
Other non-current payables and liabilities	40	311,633	-
Total non-current liabilities		**32,790,314**	**63,034,170**
Current liabilities			
Trade payables	31	45,585,065	37,690,502
Other current payables and liabilities	32	33,939,063	28,900,689
Current financial liabilities	19	257,038	30,279,531
Current tax payables	33	578,997	409,757
Total current liabilities		**80,360,163**	**97,280,479**
Total liabilities and net equity		**293,972,437**	**336,704,751**

(*) The balance-sheet was drawn up in compliance with International Financial Reporting Standards, issued by the International Accounting Standards Board and adopted by the European Union ("IFRS").

(**) Notes refer only to items commented in these Explanatory notes.

CHANGES IN SHAREHOLDERS' EQUITY (*)

Rai Way S.p.A.

(Amounts in Euro)	**Share capital**	**Legal reserve**	**Other reserves**	**Retained earnings**	**Total**
At 1 January 2015	**70,176,000**	**6,890,612**	**37,078,970**	**39,644,818**	**153,790,398**
Comprehensive income for the period				38,942,336	38,942,336
Gains and losses from actuarial assessment				94,162	94,162
Allocation of profit to reserves		1,232,289		(1,232,289)	-
Distribution of dividends				(33,564,800)	(33,564,800)
At 31 December 2015	**70,176,000**	**8,122,901**	**37,078,970**	**43,884,226**	**159,262,096**
Comprehensive income for the period				41,814,299	41,814,299
Gains and losses from actuarial assessment				(537,146)	(537,146)
Cash flow hedge reserve			(54,364)		(54,364)
Allocation of profit to reserves		1,947,117		(1,947,117)	-
Distribution of dividends				(38,950,400)	(38,950,400)
At 31 December 2016	**70,176,000**	**10,070,018**	**37,024,606**	**44,263,862**	**161,534,486**
Comprehensive income for the period				56,263,228	56,263,228
Gains and losses from actuarial assessment (**)				377,984	377,984
Cash flow hedge reserve (**)			20,804		20,804
Allocation of profit to reserves		2,090,715		(2,090,715)	-
Distribution of dividends				(41,806,400)	(41,806,400)
At 31 December 2017	**70,176,000**	**12,160,733**	**37,045,410**	**57,007,959**	**176,390,102**
Comprehensive income for the period				59,745,563	59,745,563
Gains and losses from actuarial assessment (**)				330,094	330,094
Profits and losses brought forward before adoption of IFRS				(570,159)	(570,159)
Cash flow hedge reserve (**)			33,560		33,560
Allocation of profit to reserves		1,874,467		(1,874,467)	-
Distribution of dividends				(55,107,200)	(55,107,200)
At 31 December 2018	**70,176,000**	**14,035,200**	**37,078,970**	**59,531,790**	**180,821,960**

(*) The statement was drawn up in compliance with International Financial Reporting Standards, issued by the International Accounting Standards Board and adopted by the European Union ("IFRS").

(**) These items are listed net of relative tax effects

CASH-FLOW STATEMENT (*)
Rai Way SpA

(Amounts in Euro)	**12 months at 31/12/2018**	**12 months at 31/12/2017**
Profit before income taxes	**82,548,601**	**79,749,533**
Adjustments for:		
Depreciation, amortisation and write-downs	33,250,689	34,499,228
Provisions and (releases of) personnel and other funds	3,953,595	293,241
Net financial (income)/expenses (**)	1,030,894	1,409,898
(Retained earnings)/Losses carried forward - IFRS first-time adoption	(761,128)	-
Cash-flows generated by operating activities before changes in net working capital	**120,022,651**	**115,951,900**
Change in inventories	6,233	27,793
Change in trade receivables	163,739	(5,747,544)
change in trade payables	7,894,563	(5,029,969)
Change in other assets	(432,995)	(656,663)
Change in other liabilities	2,741,305	(5,411,458)
Use of risk fund	(895,432)	(1,319,040)
Payment of employee benefits	(3,180,436)	(3,985,509)
Change in current tax receivables and payables	340,855	(50,765)
Paid taxes	(21,644,365)	(23,130,432)
Net cash flow generated by operating activities	**105,016,118**	**70,648,313**
Investments in property, plant and equipment	(23,988,839)	(14,853,503)
Disposals of property, plant and equipment	105,205	134,284
Investments in intangible assets	(3,001,097)	(1,418,935)
Disposals of intangible assets	-	36,583
Change in non-current financial assets	52,187	58,313
Business combination	-	(7,407,098)
Change in other non-current assets	(962,567)	17
Interest received	3,467	75,106
Net cash flow generated by investment activities	**(27,791,644)**	**(23,375,233)**
Decrease/increase in medium/long-term loans	(60,158,603)	(30,154,277)
Decrease/increase in current financial liabilities	(22,493)	(263,415)
Change in current financial assets	91,724	78,579
Interest paid	(729,522)	(938,697)
Dividend paid	(55,107,200)	(41,799,017)
Net cash flow generated by financing activities	**(115,926,094)**	**(73,076,827)**
Change in cash and cash equivalents	**(38,701,620)**	**(25,803,747)**
Cash and cash equivalents at the beginning of the period	55,895,135	81,309,420
Cash and cash equivalents of newly consolidated companies	-	389,462
Cash and cash equivalents at the end of the period	**17,193,515**	**55,895,135**

(*) This statement was drawn up in compliance with International Financial Reporting Standards, issued by the International Accounting Standards Board and adopted by the European Union ("IFRS").

(**) The item Net financial revenues and (charges) do not include financial charges relative to the decommissioning and restoration fund as they are not considered to be of a financial nature.

NOTES TO THE FINANCIAL STATEMENTS

Introduction (note 1)

Rai Way S.p.A. (hereinafter "Rai Way" or the "Company") prepares, in relation to the provisions of Legislative Decree no. 38 of 28 February 2005, these financial statements for the year ended 31 December 2018 and compared with the figures at 31 December 2017 (hereinafter the "Financial Statements") in accordance with International Financial Reporting Standards (hereinafter "IFRS" or "international accounting standards"), issued by the International Accounting Standards Board (hereinafter "IASB") and adopted by the European Commission according to the procedure set out in art. 6 of (EC) Regulation no. 1606/2002 of the European Parliament and Council of 19 July 2002. The term IFRSs also includes all international accounting standards ("IAS") and all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") previously called the Standard Interpretations Committee (SIC). For drafting these Financial Statements the Company has provided complete information, applying IFRS consistently, furthermore making the necessary reclassifications in order to improve the presentation of the Financial Statements. These reclassifications have also been made to the comparison figures to ensure that the figures are fully comparable.

It is noted that from 1 January 2018, the accounting standards IFRS 9 "Financial Instruments" (hereinafter "IFRS 9") and IFRS 15 "Revenue from Contracts with Customer" (hereinafter "IFRS 15") became applicable. In relation to these, the Company has availed itself of the option to record the effect of the retrospective redetermination of the values in the shareholders' equity at the beginning of the current financial year whose effects deriving from the first application are illustrated in the paragraph "Effects deriving from the first application of accounting standards IFRS 9 and IFRS 15".

It is also noted that on 1 March 2017 the Company acquired the company Sud Engineering S.r.l., which operates in the radio and television system maintenance and installation sector, with the subsequent merger on 20 June 2017, with the legal effects starting from 22 June 2017 and accounting and tax effects dated back to 1 March 2017. The aim of the merger was to simplify the current corporate structure where Sud Engineering S.r.l. was the only subsidiary of Rai Way S.p.A., so Rai Way S.p.A. could carry out Sud Engineering's activities on a direct basis, thereby improving the economic, management and financial effectiveness. Since the Company held the entire share capital of Sud Engineering S.r.l., it did not assign - in accordance with article 2504-ter of the Civil Code - its shares to replace the shares of Sud Engineering, which were therefore cancelled after the merger without a share swap or payment of the balance in cash. The merger did not change the shareholding structure of the Company or exclude its shares from being listed. With respect to the tax aspects, the merger operation is fiscally neutral and therefore did not generate fiscally significant capital losses or capital gains. The assets and liabilities of Sud Engineering were included in the financial statements of the Company on a fiscal continuity basis in accordance with article 172, paragraphs 1 and 2 of the Consolidated Income Tax Act.

It is also noted that the deficit generated in the intangible assets as part of the merger with the company Sud Engineering was allocated, with the consent of the Board of Statutory Auditors, to "Goodwill" and "Customer portfolio - business combination transactions".

In accordance with international accounting standards, intangible fixed assets with an indefinite useful life, such as goodwill, are not subject to amortisation but to an annual impairment test as required by IFRS 36. The natural consequence of the different statutory/accounting and tax regime (where, in the second, the principle of neutrality and therefore of irrelevance of recognised values applies) is the occurrence of a misalignment between accounting and tax values.

With the objective of absorbing the misalignments and differences arising following extraordinary transactions, the Company has opted for the "ordinary" redemption treatment pursuant to art. 176, paragraph 2-ter of the Consolidated Income Tax Act as required by our tax system which allows the transferee (incorporating) company to fiscally recognise (realigning them) the main values in the financial statements in the context of the above-mentioned transactions, eliminating or reducing this misalignment with statutory values following the payment of a substitute tax.

General Information (note 2)

Rai Way S.p.A. is a Company incorporated, domiciled and organized under the laws of the Republic of Italy, with registered office in Via Teulada 66, Rome.

The Company, which was incorporated on 27 July 1999, has been operational since 1 March 2000 following the contribution of the "Transmission and Broadcasting Division" business unit by its sole shareholder Rai Radiotelevisione Italiana S.p.A. (hereafter "Rai").

Rai Way owns and manages the transmission and broadcasting networks of the Rai signal. The Company's activities are as follows:

- the design, installation, construction, maintenance, implementation, development and management of telecommunications networks and software, as well as the preparation and operation of a commercial, distribution and assistance network; these operations are aimed at the provision of services for the transmission, distribution and broadcasting of audio and visual signals and programs in favour of Rai, which is the concessionaire of Italian public radio and television broadcasting services, and of its subsidiaries, as well as of third parties, and of telecommunications services of any kind;
- the provision of wireless infrastructures and related services to wireless operators (including telephone operators, local loop wireless operators, TETRA, UMTS and other existing or future mobile technology operators), including the leasing of sites/aerials and co-lease services, built-to-suit services, network programming and design, site research and acquisition, site design and construction, site installation and commissioning, network

optimization, infrastructure maintenance, network operation and maintenance and related microwave or fibre transmission services;

- research, consulting and training activities for people both inside and outside the Company, in the areas described in the two paragraphs above.

Summary of Accounting Principles (note 3)

The main accounting principles and policies applied by the Company in preparing these financial statements are set out in the following.

Basis of Preparation

The financial statements have been prepared on a going concern basis, as the Directors have verified that there are no indicators of a financial, operational or other nature that may suggest critical issues connected with the Company's ability to meet its obligations in the foreseeable future, and in particular over the next 12 months. The means by which the Company manages financial risks is included in the section "Financial risk management".

The financial statements have been prepared and are presented in Euro, the currency of the prevalent economic environment in which the Company operates. All amounts stated in this document are expressed in thousands of Euro unless otherwise stated and the financial statements are expressed in Euro.

The following is a summary of the primary financial statements presented and the classification policies selected by the Company from the options available in IAS 1 Presentation of Financial Statements:

- statement of financial position prepared by classifying assets and liabilities on a "current/non-current" basis;
- an income statement prepared by classifying operating costs by their nature;

- a statement of comprehensive income which in addition to net profit for the year includes other changes in the equity accounts arising from transactions not carried out with the Company's shareholders;
- a cash flow statement which has been prepared by presenting cash flows from operating activities using the "indirect method".

The Financial Statements have been prepared under the conventional historical cost criterion, other than for the measurement of financial assets and liabilities which are required to be measured at fair value.

Translation of transactions in a currency other than the functional currency

Transactions in a currency other than the Euro are translated at the exchange rate at the transaction date. Any foreign exchange gains or losses on the assets or liabilities in currency arising from the closing of the transaction or from translation at the balance sheet date are recognized in profit or loss under the items "Financial income" and "Financial expenses".

Accounting policies

The most significant accounting standards and evaluation criteria for the preparation of financial statements are briefly described below. They are unchanged from those used for the 2017 financial year with the exception of the application date, on 1 January 2018, of the new IFRS 9 and IFRS 15 accounting standards, whose first application effects are illustrated in paragraph "Effects deriving from the first application of accounting standards IFRS 9 and IFRS 15".

Property, plant and equipment

Property, plant and equipment is measured at purchase cost including all the directly attributable accessory costs required to make the asset ready for use. If the Company has the obligation to dismantle and remove assets and restore the sites at which it has operated to their original condition, the carrying amount of items of property, plant and equipment also includes the estimated costs, discounted as necessary, that it will incur on decommissioning the facilities, with a counter-entry being made to a specific provision. Any borrowing costs directly attributable to the acquisition, construction of production of property, plant and equipment are capitalized and depreciated over the useful life of the asset to which they refer.

Items of property, plant and equipment are depreciated systematically on a straight-line basis over an asset's economic and technical useful life, meaning the estimated period for which the Company believes the asset will be used, starting from the time it becomes available for use. If items of property, plant and equipment are made up of several significant components, depreciation is charged for each separate component. The depreciable amount consists of the carrying amount less any residual value, being the amount the Company expects to obtain on selling an asset at the end of its useful life, provided that this amount is significant and can be reasonably determined. Land is not depreciated even if acquired together with a building.

Costs incurred for routine and/or periodic maintenance and repairs are expensed as incurred. Expenditure on extending, modernizing or improving structural items owned or used by third parties are capitalized to the extent this responds to the requirements for being separately classified as an asset or part of an asset. Assets recognized as leasehold improvements are depreciated over the shorter of the contract term or the asset's specific useful life.

The indicative estimated useful lives of the different categories of property, plant and equipment are as follows:

Asset category	Useful life (years)
Buildings	10 – 17
Plant and machinery	4 – 12
Production and commercial equipment	5 – 7

Other assets	4 – 8

The useful lives of assets are reviewed and revised, where necessary, at least at the end of every year.

Intangible assets

Intangible assets are identifiable assets without physical substance that are controlled by the Company and able to produce future economic benefits. The requirement to be identifiable is generally met when the intangible asset arises from a legal or contractual right or can be sold or licensed separately or as part of other assets. Control consists in the Company's power to obtain the future economic benefits flowing from the asset together with the possibility of preventing or restricting the access of others to those benefits.

Intangible assets are recognized at cost, determined using the criteria stated for property, plant and equipment.

Intangible assets with a finite useful life are systematically amortized over their useful lives, meaning the estimated period during which they will be used by the Company. The Company uses the same approach to determine the amortizable amount and the recoverability of the carrying amount described for "property, plant and equipment". Intangible assets with an indefinite useful life (Goodwill) are not automatically amortised but at least annually undergo the impairment test as required by IAS 36. Any write-downs for these assets cannot be subsequently recovered.

Impairment of property, plant and equipment and intangible assets

Testing is carried out at each balance sheet date to assess whether there is any indication that a property, plant and equipment or intangible asset may be impaired. Internal and external sources of information are used to make this assessment. The following are considered for the former (internal sources): the obsolescence or physical deterioration of an asset, any significant changes in the use of an asset and the economic performance of an asset compared to that expected. For external sources the following are considered: changes in the market price of an asset, any technological, market or legislative discontinuities, changes in market interest rates or in the borrowing costs used to value the investments.

If the presence of such indicators is identified, an estimate is made of the recoverable amount of the assets, with any impairment loss compared to book value being recognized in profit or loss. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, with the latter being the present value of the future cash flows expected to be derived from the asset. In calculating value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money over the period of the investment and the risks specific to the asset. If an asset does not generate cash flows that are largely independent, the recoverable amount is determined for the cash-generating unit (CGU) to which that asset belongs, meaning the smallest identifiable group of assets that generates independent cash flows.

An impairment is recognized in the income statement when the book value of the asset or the relevant CGU to which it is allocated is higher than its recoverable value. Reductions in value of CGUs are recorded against the respective assets in proportion to their book value and within the limits of the recoverable value thereof. If the conditions for an impairment previously recognized no longer exist, the asset's book value is restored and recorded in the income statement, within the limits of the net accounting value that the asset would have had if the reduction had not been made and if the relevant amortization had been performed.

Cash and cash equivalents

Cash and cash equivalents consist of, cash, deposits on demand and financial assets with an original maturity date of up to 90 days, readily convertible into cash and subject to an immaterial risk of a change in value.

Receipts are recognized as per the date of the bank transaction, while payments also take into account the order date.

Inventory

Inventories of raw materials, ancillary materials and consumables, mostly technical materials, are measured at the lower of cost, determined on a weighted average cost basis, and market value at the balance sheet date. Stocks of raw materials, ancillary materials and consumables that can no longer be used in the production cycle are written down.

Work in progress, typically relating to the adaptation of the transmission and broadcasting network to the requirements of Rai under the "Agreement for the provision of transmission and broadcasting services" (hereafter the "2000-2014 Service Agreement") entered with Rai on 5 June 2000 and valid, in the version subsequently supplemented and amended on several occasions, until 30 June 2014 and renegotiated on 31 July 2014 with effect from 1 July 2014 (reference should be made to the paragraph Related party transactions - note 38 for this matter), are measured on the basis of the costs incurred in relation to the progress of the works, determined using the method of the cost incurred (cost-to-cost).

Trade receivables, other financial assets and other assets

Taking account of their contractual characteristic and the business model adopted for their management, trade receivables, financial assets and other assets are classified under the following categories: (i) financial assets valued at amortised cost; (ii) financial assets valued at fair value through other comprehensive income; (iii) financial assets at fair value through profit or loss.

If they exclusively generate contractual cash flows representative of capital and interest and if managed according to the business model whose objective is to hold the asset to receive the above-mentioned cash flows, trade receivables, financial assets and other assets are initially recognised at adjusted fair value net of directly attributable transaction expenses and subsequently valued with the amortised cost criterion on the basis of the method of effective interest rate (or the rate that makes the actual value of expected cash flows and recognition value equal at the initial recognition time), suitably adjusted for any impairments, through the recognition of a provision for bad and doubtful debts.

Trade receivables, financial assets and other assets having the above-mentioned contractual characteristics, if managed according to a business model whose objective is both to hold the asset to benefit from the contractual cash flows represented by the repayment of capital and of interests accrued and to realise investments through disposal, are subsequently valued at fair value through other comprehensive income.

Financial assets whose contractual cash flows are not representative solely of the payment of capital and interests, are valued at fair value through profit or loss with the exception of financial derivatives designed as hedge for financial flows that are valued at fair value through other comprehensive income.

Trade receivables, other financial assets and other assets are classified as current assets, other than those having a contractual settlement date of more than twelve months after the balance sheet date which are classified as non-current assets.

Impairment of financial assets

At each of the financial statements reference dates, all financial assets other than those valued at fair value through profit or loss are analysed to ascertain if there is objective evidence that a financial asset or group of financial assets has suffered or might suffer an impairment according to the "expected loss" model.

The Company values expected losses on trade receivables in relation to their overall duration on the basis of the weighted estimate of the probability that such losses might occur. To this end, the Company uses information and quantitative and qualitative analyses, based on historical experience, suitably integrated with provisional valuations with regard to the expected development of circumstances. Losses are measured as the actual value of all the differences between financial cash flows contractually due and cash flows that the Company expects to receive. The discount is implemented by applying the financial asset's effective interest rate.

For assets other than trade receivables (financial assets, other assets, cash and cash equivalents), the Company estimates losses on a temporary basis corresponding with the duration of each financial instrument if the credit risk (or default risk along the expected life of the financial instrument) has increased significantly from the date of initial recognition. For financial assets represented by debt securities to which a low credit risk was assigned at the reference date of the financial statements, losses are estimated on a time period of 12 months. In line with the Parent Company, the Company considers that debt securities have a low credit risk when the rating is equivalent or higher to at least one of the following: Baa3 for Moody's, BBB- for Standard&Poor's and Fitch.

To determine if the credit risk of a financial asset other than trade receivables has significantly increased after the initial recognition, the Company uses all relevant and reasonable information that is adequately supported and available without excessive expense or effort.

Impairment losses relative to financial assets are recorded separately in the income statement.

If the impairment value of an asset recognised in the past is reduced, and the decrease can be objectively linked to an event occurred after the recognition of impairment, this is credited again to the consolidated income statement.

Derecognition of financial assets and liabilities

Financial assets are derecognised when they meet one of the following conditions:

- the contractual right to receive cash flows from the asset has expired;
- the Company has essentially transferred all risks and benefits linked to the asset, disposing of its rights to receive cash flows from the asset or assuming

a contractual obligation to pay cash flows received to one or more beneficiaries linked to the asset by a contract in compliance of the requirements of IFRS 9 (“pass through test”);

- the Company has not essentially transferred nor retained all risks and benefits linked to the financial asset but has surrendered its control.

Finance and operating leases

IAS 17 “Leases” defines a finance lease as a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee, regardless of whether title is transferred to the lessee at the end of the lease term. A lease is therefore classified as a finance lease when it transfers substantially all the risks and rewards typically associated with ownership of an asset from the lessor to the lessee.

More specifically, under IAS 17 a lease that has certain specific features must be classified as a finance lease and accounted for as if it were a loan granted by the lessor even though title to the leased asset remains with the lessor. The classification of a lease as a finance lease or as an operating lease therefore depends on the substance, rather than the form, of the lease.

In further detail, in accordance with IAS 17, the lessor in a finance lease recognizes:

- in the statement of financial position a financial receivable equal to the present value of the minimum lease payments due to the lessor, determined by applying a constant periodic rate of interest, rather than the assets of which he is the formal owner;
- in the statement of comprehensive income the interest accruing on the financial receivable over time.

Leases where the lessor keeps substantially all the risks and rewards incidental to ownership are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

When classifying a lease of land and buildings, the land and buildings are considered as separate elements to determine whether each has been acquired under a finance lease or as an operating lease.

Financial liabilities

Financial liabilities are initially recognized at fair value excluding any directly attributable accessory costs, and are subsequently measured at amortized cost using the effective interest rate method. If there is a change in the estimate of expected cash flows, the carrying amount of the liability is recalculated to reflect that change on the basis of the present value of the new expected cash flows and the effective internal rate initially determined. Financial liabilities are classified as current liabilities, other than those having a contractual due date of more than twelve months after the balance sheet date and where the Company has an unconditional right to defer settlement for at least twelve months after the balance sheet date.

Financial liabilities are recognized at the trading date of the transaction and are derecognized when they are extinguished and when the Company has transferred all the risks and expenses relating to the instrument.

Derivatives

A derivative is a financial instrument or other contract with the following characteristics:

- its value changes in response to changes in an underlying such as an interest rate, a share price or a commodity price, a foreign exchange rate, an index of prices or rates, a credit rating or another variable;

- it requires no initial net investment or an initial net investment that is smaller than would be required for contracts having a similar response to changes in market conditions;
- it is settled at a future date.

Derivatives are classified as financial assets or financial liabilities depending on whether their fair value is positive or negative, and are further classified as "held for trading" and measured at fair value through profit or loss, except for those designated as effective hedges.

Derivatives are designated as hedging instruments when the relationship between the derivative and the hedged item is formally documented and the hedge is expected to be highly effective; the effectiveness of a hedge is verified on a regular basis. When derivatives hedge the exposure to variabilities in the cash flows of the hedged item (cash flow hedges) such as in the case of hedging the variability in cash flows arising from assets/liabilities due to fluctuations in foreign exchange rates, the changes in the fair value of derivatives considered effective are initially recognized in the shareholders' equity reserve relating to other components of Consolidated comprehensive income and subsequently reclassified to the Consolidate income statement in line with the economic effects arising from the hedged transaction. Changes in the fair value of derivatives that do not qualify as hedges are recognized directly in profit or loss.

Employee benefits

Short-term benefits consist of wages, salaries, the related social charges, compensated annual leave and incentives in the form of bonuses payable within twelve months of the balance sheet date. These benefits are recognized as personnel costs in the period in which employees render the related service.

In defined benefit programs, which also include the severance pay due to employees pursuant to article 2120 of the Italian Civil Code (the "TFR"), the amount of the benefit to be paid to employees can only be determined after the completion of employment and is linked to several factors such as age, years of service and remuneration. The cost is accordingly recognized in the income statement on the basis of an actuarial calculation. The liability recognized for defined benefit plans corresponds to the present value of the obligation at the balance sheet date. Defined benefit plan obligations are calculated on an annual basis by an independent actuary using the projected unit credit method. The present value of a defined benefit plan is determined by discounting the future cash flows using an interest rate determined by reference to high quality corporate bonds issued in Euros, consistent with the term of the related pension plan. The actuarial gains and losses arising from these adjustments and changes in actuarial assumptions are recognized in comprehensive income.

From 1 January 2007 the so-called Financial Law 2007 and corresponding implementation decrees introduced significant changes to regulations for the TFR, including permitting an employee to choose the destination of the accruing entitlement. More specifically, from that date an employee is able to decide whether the new TFR flows should be transferred to a selected supplementary pension fund or retained within the company. In the case of transfer to an external pension fund, the Company usually pays over a defined contribution to the fund, and from that date the portion of accruing TFR has the nature of a defined contribution plan and is not therefore subject to actuarial valuation.

As far as retirement incentives are concerned, if the retirement incentive is not included as part of the restructuring programs the liabilities and the cost relating to the benefits due as the result of the termination of the employment relationship are recognized when the Company can no longer withdraw its offer for the benefits payable as a result of the termination of the employment relationship. More specifically, if the decision to terminate is made by the employee, the Company may no longer withdraw the offer of such benefits when the first of the following occurs (i) the employee accepts the offer, (ii) a restriction on the ability of the Company to withdraw the offer comes into force. Conversely if the Company decides to terminate the employment relationship, it may no longer withdraw the offer of such benefits when it has communicated a detailed retirement incentive plan to those concerned and when the steps required to be taken to complete the plan imply that it is improbable that significant changes will be made to such. If it is expected that such benefits will be fully settled within twelve months after the end of the year in which such benefits are recognized, the requirements for short-term employee benefits are applied, while if this is not expected to be the case the entity applies the requirements for other long-term employee benefits.

Provisions for risks and charges

Provisions for risks and charges are recognized for losses and charges of a specific nature whose existence is certain or probable but for which the amount and/or date of occurrence cannot be determined. Provisions are only recognized when the Company has a present obligation, legal or constructive, arising from past events, for the future outflow of economic benefits and it is probable that such outflow will be required to settle the obligation. The amount recognized as a provision is the best estimate of the expense required to settle the obligation.

Where the effect of the time value of money is material and the date of settling the obligation can be reliably estimated, the amount of the provision is the present value of the expected expense discounted using a rate that reflects market conditions, the change in the time value of money and the risks specific to the liability. The increase in the carrying amount of a provision reflecting the change over time of the cost of money is recognized as financial expenses.

Risks for which the likelihood that a liability will arise is only possible are disclosed in the section of the notes on contingent liabilities and no provisions are recognized.

Trade payables and other liabilities

Trade payables and other liabilities are initially recognized at fair value, excluding directly attributable accessory costs, and are subsequently measured at amortized cost using the effective interest rate method.

Recognition of revenues and income

The recognition of revenue is based on the following five steps:

1. identify the contract with a customer;
2. identify the separate performance obligations in the contract (meaning the contractual commitment to transfer goods and/or services to the customer);
3. determine the transaction price;
4. allocate the transaction price to the performance obligations identified on the basis of the standalone sales price for each good or service;
5. recognize the revenue when each performance obligation is satisfied.

On underwriting each contract with customers in relation to promised goods or services, the Company identifies as a separate obligation each promise to transfer goods, service, a series of assets or services or a combination of distinct goods and services.

Revenues are valued according to fair value of the consideration due, inclusive of any variable components, when it is believed it is highly probable that this will not be reversed in future.

The Company recognises revenues due for the fulfilment of each separate obligation at the time the control on services rendered, rights conceded or goods supplied is transferred to the buyer.

Revenues are recorded in the financial statements net of any discounts or rebates, payments made by customers without correspondence to the purchase of the Company's distinct goods or services as well as the estimate of customer returns.

The Company recognises a contractual asset or liability in function of the fact that the service has a ready taken place, but that the relative compensation is yet to be received, or as a contractual liability when obligations assumed are yet to be fulfilled but the compensation has already been received.

For each of the main revenue flows identified, a short description is given below of the recognition, measurement and valuation process applied.

Revenues deriving from Supply Contracts for turnkey services with the Parent Company relate to the performance of all activities necessary to guarantee transmission and broadcasting, in Italy (on the frequencies assigned to Rai) and abroad, of the radio and television signals relating to Rai's audio and visual contents and the ordinary fulfilment of obligations pertaining to the Concessionary of the public radio and television service. Under the scope of the Contract are also included "Evolutionary Services", meaning extension of already operational services, and "New Services", which refer instead to services relating to completely new standards/technologies, not yet known or expected today.

The nature of the obligation assumed, which is satisfied over time, involves the recognition of relative accrued revenues through the period in which the obligation was fulfilled.

Revenues from equipment and apparatus hospitality services are recognised from the time the customer obtains access to the sites where the equipment and apparatus are destined to be placed. Such revenues are recognised in a linear manner throughout the duration of the hospitality contract, irrespective therefore of the temporal distribution of compensation.

Financial income is recognized in the income statement in the year in which it accrues.

Recognition of costs

Costs are recognized in the income statement on an accrual basis. Financial expenses are recognized in the income statement in the year in which it accrues.

Government grants

Government grants, including non-monetary contributions valued at fair value are recognized when there is reasonable assurance that the Company will comply with all the conditions attaching to the receipt of the grants and that the grants will be received.

The benefit of public funding at an interest rate lower than market rate is treated as a public subsidy. The funding is initially recognised at fair value and the public subsidy is measured as the difference between the initial accounting value and the funding received. The funding is subsequently valued in accordance with the provisions for financial liabilities.

Operating grants are recognised as a positive component of the income statement, under the item Other revenues and income.

Public grants received for the purchase, construction or acquisition of fixed assets (property, plant and equipment or intangible) are recognised as a direct reduction of the relative purchase or production cost or recognised in the income statement in relation to their relative useful life, on the basis of the amortisation and depreciation process for the assets for which the grants were received.

Taxation

Current taxes are determined on the basis of an estimate of taxable profit made in compliance with the fiscal legislation applicable to the Company.

Deferred tax assets and liabilities are recognized for all the differences between the carrying amount of an asset or liability and its tax base and are measured at the tax rates that are expected to apply to the period when the difference is realized settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. For the portion not offset by deferred tax liabilities, deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which they can be recovered.

Current taxes and deferred taxes are recognized under the item “Income tax” in the income statement, apart from taxes relating to items recognized in comprehensive income and those relating to items directly charged or credited to equity. In these latter cases, deferred taxes are recognized in comprehensive income and directly in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority, the Company has a legally enforceable right to set off the recognized amounts and the Company intends to settle on a net basis.

Other taxes that are not based on income, such as indirect taxes and duties, are recognized under the item “Other costs” in the income statement.

Together with Rai the Company has opted for domestic tax consolidation. The economic relationships, as well as the mutual responsibilities and obligations, between Rai and the other companies of the same group that opted to join the tax consolidation are defined in the “Agreement for the exercise of the option for the domestic consolidation in accordance with article 117 and following of the Consolidated Income Tax Act”, under which:

- subsidiaries that transfer a taxable profit to Rai also transfer the amounts required to settle the additional tax liability due as the result of their participation in the domestic consolidation;
- subsidiaries that transfer a taxable loss to Rai are compensated to the extent of the respective tax saving achieved by Rai when this saving is realized or could have been realized by the subsidiary transferring the loss.

Accordingly the related tax net of any advances paid, withholding tax and tax credits in general is recognized as a receivable from or payable to the Parent Company.

Earnings per share

Basic earnings per share is calculated by dividing the Company’s net profit by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the Company's net profit by the weighted average number of ordinary shares outstanding during the year. In order then to calculate diluted earnings per share the weighted average number of ordinary shares outstanding during the year is adjusted by assuming that all the holders of rights that potentially have a dilutive effect exercise those rights, while the Company's net profit is adjusted to take into account any effect, net of taxes, of exercising those rights.

Effects deriving from the first application of accounting standards IFRS 9 and IFRS 15

With the first-time application of the new accounting standards IFRS 9 and IFRS 15, the Company chose to exercise the option of recognising the effects of retrospective remeasurement in shareholders' equity at the opening of the current reporting period. As such differences in carrying amounts resulting from the adoption of the new standards have been recognised in other reserves and retained earnings at 1 January 2018, while the balances at 31 December 2017 have been measured and stated in the financial statements respectively in accordance with the previsions of IAS 39 and IAS 18, the previous accounting standards applied.

Following the introduction of the IFRS 9 accounting standard, a new item "Impairment of financial assets" was introduced in the income statement to recognise impairment values (including recoveries) of financial assets in the broadest sense defined by IAS 32, which includes all the assets of contractual origin with the right to receive cash flows (therefore, including trade receivables). In relation to the chosen option to retrospectively redetermine the opening values of the shareholders' equity for the current period, reference values at 31 December 2017 were measured and recognised in the financial statements in accordance with the provisions of the previous accounting standard, IAS 39.

The impacts of the application of the new accounting standards on the financial position at 1 January 2018 are shown in the table below.

BALANCE SHEET RAI WAY

Effects deriving from the application of IFRS 15 and 9 on the openingbalance sheet at 1.1.2018

(Amounts in Euro)	12 months at 31/12/2017	IFRS 15	IFRS 9	01/01/2018
Non-current assets				
Property, plant and equipment	188,686,465	-	-	188,686,465
Intangible assets	11,188,738	-	-	11,188,738
Non-current financial assets	53,846	-	-	53,846
Deferred tax assets	2,164,488	190,968	-	2,355,456
Other non-current assets	355,671		-	355,671
Total non-current assets	**202,449,208**	**190,968**	**-**	**202,640,176**
Current assets				
Inventories	892,161	-	-	892,161
Trade receivables	71,955,278	-	(90,923)	71,864,355
Other current receivables and assets	5,358,860	-	-	5,358,860
Current financial assets	146,453	-	-	146,453
Cash and cash equivalents	55,895,135	-	-	55,895,135
Current tax receivables	7,656	-	-	7,656
Total current assets	**134,255,543**	**-**	**(90,923)**	**134,164,620**
Total assets	**336,704,751**	**190,968**	**(90,923)**	**336,804,796**
Shareholders' equity				
Share capital	70,176,000	-	-	70,176,000
Legal reserve	12,160,733	-	-	12,160,733
Other reserves	37,045,410	-	-	37,045,410
Retained earnings	57,007,959	(479,237)	(90,923)	56,437,799
Total shareholders' equity	**176,390,102**	**(479,237)**	**(90,923)**	**175,819,942**
Non-current liabilities				
Non-current financial liabilities	30,606,438	-	-	30,606,438
Employee benefits	16,443,209			16,443,209
Provisions for risks and charges	15,984,523	-	-	15,984,523
Other current payables and liabilities	-			-
Total non-current liabilities	**63,034,170**	**-**	**-**	**63,034,170**
Current liabilities				
Trade payables	37,690,502	-	-	37,690,502
Other debt and current liabilities	28,900,689	670,205	-	29,570,894
Current financial liabilities	30,279,531	-	-	30,279,531
Current tax payables	409,757	-	-	409,757
Total current liabilities	**97,280,479**	**670,205**	**-**	**97,950,684**
Total liabilities and shareholders' equity	**336,704,751**	**190,968**	**(90,923)**	**336,804,796**

Statement of changes in shareholders' equity
Effects deriving from the application of the IFRS 15 and 9 on shareholders' equity at 1.1.2018

(Amounts in Euro)	*Share capital*	*Legal reserve*	*Other reserves*	*Retained earnings*	*Total*
at 31 December 2017	**70,176,000**	**12,160,733**	**37,045,410**	**57,007,959**	**176,390,102**
Effects deriving from the application of the new standards:					
IFRS 15				(479,237)	(479,237)
IFRS 9				(90,923)	(90,923)
Balances at 1 January 2018	**70,176,000**	**12,160,733**	**37,045,410**	**56,437,799**	**175,819,942**

The following table shows the impacts on the income statement at 30 June 2018 of the application of the new accounting standards, with respect to the provisions of the previous accounting standards applied, IAS 39 and IAS 18.

INCOME STATEMENT RAI WAY SpA

(Amounts in Euro)	31 December 2018 with application of the IFRS 15 and IFRS 9 standards	IFRS 15 (1)	IFRS 9 (1)	31 December 2018 with application of previous IAS 18 and IAS 39 standards
Revenues	217,726,975	122,975		217,604,000
Other revenues and income	146,561			146,561
Purchase of consumables	(956,270)			(956,270)
Cost of services	(50,324,789)			(50,324,789)
Personnel costs	(46,070,318)			(46,070,318)
Other costs	(3,414,376)			(3,414,376)
Bad debt provision	(324,320)		(25,275)	(299,045)
Depreciation, amortisation and other write-dc	(32,926,369)			(32,926,369)
Provisions	(71,378)			(71,378)
Operating profit (EBIT)	**83,785,716**	**122,975**	**(25,275)**	**83,688,016**
Financial income	3,467			3,467
Financial expenses	(1,240,582)			(1,240,582)
Net Financial income (expenses)	**(1,237,115)**	**-**	**-**	**(1,237,115)**
Profit before income taxes	**82,548,601**	**122,975**	**(25,275)**	**82,450,901**
Income taxes	(22,803,038)	(35,054)		(22,767,984)
Net income	**59,745,563**	**87,921**	**(25,275)**	**59,682,917**

(1) Differential effects deriving from the application of the new IFRS 15 and IFRS 9 standards to replace previous IAS

Accounting standard IFRS 9 requires the entity to check both the business model relative to the management of financial assets and the contractual characteristics relative to cash flows and, on the basis of such analyses, classify them accordingly.

At the time of the original recognition, if not designated as financial assets valued at fair value through profit or loss, a financial asset is classified as:

- asset at amortised cost, if managed according to the business model whose objective is to hold the asset to benefit from its contractual cash flows and the relative contractual terms provide for the issue of financial flows represented exclusively by the return of capital and interest matured on the residual capital;

- asset valued at fair value through other comprehensive income, if managed according to a business model whose objective is either to hold the asset to benefit from its contractual cash flows and to relies the investment through its disposal and the relative contractual terms provide for the issue of financial flows represented exclusively by the return of capital and interests accrued on the residual capital.

At the time of the original recognition of an equity investment which is not held for trade, the entity can irrevocably choose to recognise subsequent variations in fair value in the other components of the comprehensive income statement. This choice is made for each investment.

The category of financial assets valued at fair value which through profit or loss includes all derivatives, with the exception of instruments designated as hedge in the context of a hedging relationship of the risk of variation of financial flows.

Taking account of what specified above, the following table compares financial assets classified according to the categories included in IFRS 9 and according to what was previously required by IAS 39. With regard to the new classification, this has not determined any effects on the values of financial assets at 1 January 2018.

	Previous classification adopted in accordance with IAS 39	New classification adopted in accordance with IFRS 9
Trade receivables	Loans and receivables	Assets at amortised cost
Current financial assets	Loans and receivables	Assets at amortised cost
Cash and cash equivalents	Loans and receivables	Assets at amortised cost
Non-current financial assets	Loans and receivables	Assets at amortised cost
Derivative hedge financial instrument – Interest Rate Swap	Hedge derivative financial instruments	Financial assets valued at fair value through other comprehensive income

The following table illustrates the effects at 1 January 2018 deriving from the reclassification of financial assets and liabilities on the basis of the criteria included in IFRS 9:

Reconciliation statement at 1.1.2018 between the previous classification of assets and liabilities in accordance with IAS 39 and the current classification required by IFRS 9

(in thousand of Euro)

IFRS 9 CLASSIFICATION *IAS 39 CLASSIFICATION*	Assets and liabilities at amortised cost	Financial assets and liabilities at fair value through	Financial assets and liabilities at fair value through other comprehensive	Total financial assets and liabilities
Assets				
Loans and receivables	127,960	-	-	127,960
Financial assets available for sale	-	-	-	-
Financial assets and liabilities at fair value through profit or loss	-	-	-	-
Hedge financial instruments	-	-	-	-
Total financial assets	**127,960**	**-**	**-**	**127,960**
Liabilities				
Loans and receivables	(98,576)	-	-	(98,576)
Financial assets available for sale	-	-	-	-
Financial assets and liabilities at fair value through profit or loss	-	-	-	-
Hedge financial instruments	-	-	(47)	(47)
Total financial liabilities	**(98,576)**	**-**	**(47)**	**(98,623)**

N.B. The value include the effects at 1 January 2018 deriving from the application of the new IFRS 9

All hedging relationship designated pursuant to IAS 39 at 31 December 2017 satisfy the criteria to be recognised as hedging transactions also in compliance with IFRS 9 at 1 January 2018 and are therefore considered to be a continuation of existing hedging relationships.

For the description of management strategies and objectives of the risks to be hedged please refer to the note on the management of financial risks.

The IFRS 9 accounting standard replaces the impairment model of the "incurred loss" in IAS 39 "Financial instruments: Recognition and Measurement" with an "expected loss" model. The new model applies to financial assets valued at amortised cost and debt instruments valued at fair value through other comprehensive income and not to investments in instruments representing capital. The Company values expected losses on trade receivables and other financial assets using the criteria described in "Accounting policies – Impairment of financial assets". Impairment losses relative to financial assets are recorded separately in the income statement.

The application of the standard has determined effects on the Trade receivables item following the valuation of impairments on the basis of expected losses. With reference to 1 January 2018, the Company has determined write-downs of trade receivables for a total amount of € 91 thousand.

The effects on the shareholders' equity at 1 January 2018, deriving from the application of IFRS 15, amounted to € 479 thousand consequent to the different temporal distribution of revenues relative to equipment and apparatus hospitality fees net of the tax component.

For the method of recognition of revenues, please refer to paragraph "Accounting policies – Revenues and other income".

Recently issued accounting standards

Accounting standards adopted by the European Union but not yet applicable

- IFRS 16 "Leasing" (hereinafter "IFRS 16") was adopted by the European Commission on 31 October 2017 by way of Regulation no. 2017/1986. IFRS 16 replaces IAS 17 "Leasing" and its relative Interpretations (IFRIC 4 "Determining whether an arrangement contains a lease", SIC 15 "Operating leases — Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease").

  IFRS 16 requires that all lease contracts, defined as contracts that assign the right of use of an asset, identified or identifiable, for a determinate period of time in exchange of a compensation, are recognised in the financial statements of the lessee through recognition in the statement of financial position of a liability, represented by the actual value of future rent – calculated using the implicit lease interest rate or the marginal financing rate of the lessee if the implicit lease interest rate is not easy to be determined –

with at the same time recognition in the income statement of the corresponding "lease right of use". Therefore, the lessee will recognise in the income statement the amortisation of the right of use and interest accrued on the liability, in place of the operating lease fees recognised under costs for services in accordance with the provisions of IAS 17 applicable until the 2018 financial year. In the cash flow statement, the payment of fees to repay the above-mentioned liability will be recognised under cash flows from financing activities; therefore, with reference to lease contracts classified as operating leases in accordance with IAS 17, the application of IFRS 16 will involve a change in the net cash flow from operating activities and of the net cash flow from financing activities. Therefore, IFRS 16 overcomes the previous distinction between operating and financial leases from the lessee's point of view. However, from the point of view of the lessors, the differentiation between operating and financial leases is retained, as well as their recognition in accordance with IAS 17.

IFRS 16 is applied retrospectively from 1 January 2019.

Analysis carried out by the Company has highlighted the inclusion, in the context of the application of the standard, of the following types of contract:

- Rental of properties and land;
- Car rental.

The Company intends to avail itself of the exception made available by the standard to continue to recognise payments for short-term leases (of duration of less than 12 months) and for leases where the underlying asset is of modest value on a straight-line basis.

At the date of the first application, the Company:

- availed itself of the possibility of not re-examining each outstanding contract at 1 January 2019, applying IFRS 16 only to the contracts previously identified as leases (pursuant to former IAS 17 and IFRIC 4);

- availed itself of the possibility of checking the recoverability of assets for right of use at 1 January 2019 on the basis of the valuation, carried out in the current year, with regard to the burden of leasing contracts in compliance with the provisions of IAS 37;
- chose not to include at the transition stage leases with a residual duration of less than 12 months at 1 January 2019 under short-term leases;
- availed itself of the practical solution, allowed by the standard, of applying a simplified retrospective method with recognition, for leases previously classified as operating leases, of the lease debt and the corresponding value of the right of use measured on residual contractual payments at the date of transition actualised on the basis of the marginal financial rate applicable to the Company on 1 January 2019, or the interest rate the Company would have paid to put in place a financing operation with a similar cash profile and the same leasing contract collateral guarantees in question (Incremental Borrowing Rate).

The main impacts on the Company's financial statement can therefore be summarised as follows:

- statement of financial position: more non-current assets due to the recognition of the lease right of use in counter-entry of "leasing payables" for a quantifiable amount at 1 January 2019 of around € 49 million;
- income statement: different nature, quantification, qualification and classification of costs (amortisation of the "lease right of use" under the item "Amortisation and write-downs" and "passive lease interests" under "Financial

expenses" compared to the previous classification of costs for rents and rentals under the item "Services costs"). Furthermore, the combination of straight-line amortisation of the "lease right of use" and the method of effective interest rate applicable to lease debts involves greater costs recognised in the income statement in the first few years of the lease contract and decreasing costs in the last few years compared to IAS 17.

The quantification reported above could change due to the refinement of the measuring process on occasion of the first application of IFRS 16 in the 2019 financial reports.

- Amendments to IFRS 9 "Financial Instruments – Prepayment Features with Negative Compensation" were adopted by the European Commission with Regulation no. 2018/498 of 22 March 2018. The amendments are intended to clarify the classification of certain pre-payable financial assets. The amendments are effective for annual periods beginning on or after 1 January 2019, with early application permitted.

  The Company has evaluated that the above-mentioned change will have no impact on its financial statements as the case that it regulates is not applicable to the Company's situation.

- IFRIC 23 "Uncertainty over Income Tax Treatments" was adopted by the European Commission by way of Regulation no. 2018/1595 of 23 October 2018. IFRIC 23 specifies how to show the effects of uncertainty in accounting for income tax if it is not clear how a particular transaction or circumstance is treated for tax purposes.

  IFRIC 23 is effective for annual periods beginning on or after 1 January 2019.

  In the assessment of the Company, the aforementioned amendments will have no impact on its financial statements.

Accounting standards not yet adopted by the European Union

- On 18 May 2017, the IASB issued IFRS 17 "Insurance Contracts", which regulates the accounting treatment of insurance contracts issued and of reassurance contracts held.

  IFRS 17 is effective for annual periods beginning on or after 1 January 2021.

- On 12 October 2017, the IASB issued amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures". The amendments clarify that a company applies IFRS 9 to long-term interests in associates or joint ventures forming part of the net investment in the associate or joint venture.

  The amendments discussed in this document are effective for annual periods beginning on or after 1 January 2019.

- On 12 December 2017 the IASB issued the document "Annual Improvements to IFRS Standards 2015-2017 Cycle". The amendments contained in this document are as follows:

  - IFRS 3: the company will remeasure the stake previously held in a joint transaction when it obtains control of the business.
  - IFRS 11: the company will not remeasure the stake previously held in a joint transaction when it obtains joint control of the activity.
  - IAS 12: likewise, a company takes account of all consequences of income tax deriving from dividend payments.
  - IAS 23: a company treats as part of general loans any loan originally signed to develop an activity when the activity is ready for the intended use or for sale.

  The amendments discussed in this document are effective for annual periods beginning on or after 1 January 2019.

- On 7 February 2018 the IASB issued the document "Amendments to IAS 19: Plan Amendment, Curtailment or Settlement". The amendments specify that when an entity recalculates its own net liabilities (assets) for defined benefit plans that are amended, reduced of regulated, it must use updated actuarial assumptions to determine the current cost of service and the net interests for the remaining part of the annual reference period.

  The amendments discussed in this document are effective for annual periods beginning on or after 1 January 2019.

- On 29 March 2018 the IASB issued the document "Amendments to References to the Conceptual Framework in IFRS Standards". The purpose of this document is to update, in existing standards, references and mentions in the current version of the conceptual framework or to the version that was replaced in 2010 so that they make reference to the updated conceptual framework.

  The amendments discussed in this document are effective for annual periods beginning on or after 1 January 2020.

- On 22 October 2018, the IASB issued the document "Amendments to IFRS 3 business Combination". The objective of this project is to improve the application of the definition of business in order to resolve difficulties that arise in practice when an entity determines whether they have acquired an asset or group of assets.

  The amendments discussed in this document are effective for annual periods beginning on or after 1 January 2020. Its early application is allowed.

- On 31 October 2018, the IASB issued the document "Amendments to IAS 1 and IAS 8: Definition of Material". The objectives of the amendments are to clarify the definition of "materiality" including a guide that until now was described elsewhere in the IFRS standards; align the definition used in the conceptual framework with that of the IFRS themselves and improve the explanations accompanying the definition. The amendments discussed in this document are effective for annual periods beginning on or after 1 January 2020. Their early application is allowed.

The Company is currently analysing the above standards and assessing whether adoption will have a significant effect on its financial statements.

Segment Information

IFRS 8 Operating Segments defines an "operating segment" as a component of an entity: (a) that engages in business activities from which it may earn revenues and incur expenses, (b) whose results of operations are regularly reviewed by the entity's chief operating decision maker, which for Rai Way is the Board of Directors, to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available. The Company has identified only one operating segment, for which information on operations is prepared and made available to the Board of Directors on a periodic basis for the above-mentioned purposes, considering the business conducted by Rai Way as a single group of activities; accordingly no disclosures by operating segment are provided in the financial statements. Disclosures on the services rendered by the Company, the geographical area in which it carries out its activities (which almost entirely corresponds to the state of Italy) and its main customers are provided in the notes to these financial statements, to which reference should therefore be made.

Transactions between Rai and Rai Way

The incorporation of the Company and the completion of the transfer by the Parent Company Rai of the business unit "Transmission and Broadcasting Division" are part of a much broader streamlining project being carried out by the Rai Group which resulted in the formation of a number of subsidiaries tasked with handling specific business sectors ancillary to the Public Service for broadcasting radio and television programs previously performed by Rai. Under this transfer, which took place on 1 March 2000, the Company became the owner of the business unit tasked with performing the planning, design, installation, construction, operation, management, maintenance, implementation and development of the systems, of the stations, of the connections and in general of the network for transmitting and broadcasting Rai's voice, video and data signals. The ownership of the equipment needed for Rai's television and radio transmission and broadcasting was therefore transferred to the Company, in addition to the employment relationships with approximately 600 engineers and technicians specialized in the transmission and broadcasting of radio and television signals.

On 5 June 2000, Rai and the Company executed the 2000-2014 Service Agreement under which the latter engaged the Company to provide services on an exclusive basis for the installation, maintenance and operation of telecommunications networks and the performance of services for the transmission, distribution and broadcasting of radio and television signals and programs. The 2000-2014 Service Agreement remained effective until 30 June 2014.

On 31 July 2014 Rai and Rai Way executed the New Service Agreement, effective 1 July 2014, replacing the 2000-2014 Service Agreement, under which Rai engages the Company on an exclusive basis to provide a set of services that enable Rai to carry out the following: (i) regular transmission and broadcasting in Italy and abroad through the MUX that were assigned to it on the basis of applicable regulation; and (ii) regular fulfilment of its Public Service obligations.

Reference should be made to the paragraph "Related party transactions" for further details about transactions between Rai and Rai Way.

Financial risk management (note 4)

The financial risks to which the Company is exposed are managed in accordance with the approach and procedures included in a specific policy approved by Rai Way's Board of Directors, which is directed at risk minimization in order to maintain the value of the business as a whole and in particular economic and financial value.

The main risks identified by the Company are as follows:

- market risk, deriving from the exposure to fluctuations in interest rates and foreign exchange rates arising from financial assets and liabilities respectively owned/originated and assumed;
- credit risk, deriving from the possibility that one or more counterparties may be insolvent;
- liquidity risk, deriving from the Company's inability to obtain the financial resources necessary to fulfil short-term financial commitments;
- capital risk, deriving from the Company's ability to continue ensuring capital soundness.

Market risk

Market risk consists of the possibility that changes in interest and exchange rates, or the rating of the counterparties with whom liquidity is deposited, may negatively affect the value of assets, liabilities or expected cash flows.

The Company has adopted its own specific financial policy, whose features are described in the following and whose aim is to minimize risk and maintain the value of the business.

- Interest rate risk: the policy requires that interest rate risk, which derives from possible fluctuations in the interest rates applicable to the long-term loans granted to the Company (for significant amounts), be managed through the use of the hedging instruments available on the market such as IRSs, options, etc., with pre-set minimum cover percentages.

  During the financial year in question the term credit line was settled and so were the relative hedges and therefore the financial position at 31 December is positive for € 16.6 million, so that exposure to the interest rate risk is reduced in relation to the Company's cash and cash equivalents revenues; in fact, applying a variation of 50 bps upwards there would a positive economic impact on financial revenues, gross of the tax effect, of around € 0.1 million, while a possible reduction in the rates of 50 bps would give rise to a negative economic impact, gross of the tax effect, of around € 0.1 million.

- Exchange rate risk: the Company's operations in currencies other than the Euro are extremely limited and accordingly its exposure to exchange rate risk does not lead to significant effects on its financial position, results from operations or cash flows. The Company nevertheless monitors its exposure in currency to be ready to take the initiatives deemed necessary by its policy to manage any significant risk positions (over € 2.5 million) which may emerge from a changed exposure to exchange rate risk. In these cases the policy requires a gradual hedging approach to be taken by means similar to those envisaged for interest rate risk described above.
- Risks connected with the investment of liquidity: for risks connected with the investment of liquidity, in the case of temporary excesses of cash the Company's policy requires the use of low-risk market-based financial instruments with counterparties having a high rating or with the Parent Company.

Credit risk

The Company's main customer is its Parent Company Rai, which generated Group revenues net of marginal costs of € 184,643 thousand (approximately 85% of total Group revenues) and € 181,034 thousand (approximately 84% of total revenues) in the years ended 31 December 2018 and 2017 respectively. The Company's other customers are mainly telephone operators, broadcasting companies, entities of the public administration and other corporate customers with which the Company enters multi-year service agreements. The Company is therefore exposed to the risk of concentration of revenues and credit deriving from the possibility that its trade counterparties will be unable to fulfil their obligations, either for business and financial reasons such as business instability, the inability to collect the necessary capital for the performance of their activity or those related to the general trend towards the reduction in operating costs, or else for technical-commercial reasons or legal reasons connected with the performance of the services by the Company, such as complaints relating to the services provided or the customers' inclusion in bankruptcy proceedings that make it more difficult or impossible to recover the receivables.

A breach by one of the Company's trade counterparties to fulfil its obligations may result in negative effects on its results of operations, financial position and cash flows.

With regard to counterparty risk, formalized procedures for assessing and accepting trade partners have been adopted for credit management purposes. The assessment is carried out on overdue items and may lead to formal notice of default being served on the parties involved. The lists of overdue items analysed are sorted by amount and by customer, updated to the analysis date, in order to highlight the items requiring greater attention and the need to send reminders or carry out other collection procedures as required by business policies.

The Company sends informal payment claim notices to debtors owing amounts relating to overdue items. If this activity does not remedy the situation, after formally placing the debtors in default the Company assesses the possibility of filing for an injunction.

The following table provides an ageing of trade receivables at 31 December 2018 and 2017, with figures stated net of the provision for bad and doubtful debts.

(in thousand of Euro)	**2018**	**2017**
Becoming due	66,783	58,680
Past due by 0-30 days	240	6
Past due by 31-60 days	91	43
Past due by 61-90 days	64	157
Past due by more than 91 days	4,289	13,069
Total	**71,467**	**71,955**

All trade receivables are due within 12 months.

Liquidity risk

Liquidity risk is the inability for the Company to obtain the funding it requires to meet its operational requirements for investments, working capital and debt servicing. Rai Way believes that cash flows from operating activities and its outstanding loans (see the section on "Current and non-current financial assets and liabilities") are amply sufficient to meet its needs. At 31 December 2018, the long term loan for a total of € 120 million has been fully repaid; on the same date the Revolving Facility for the amount of € 50 million has not been used and the financial parameters established in the relative contract (covenants) have been fully respected.

The following tables set out the expected cash flows for future years arising from the Company's outstanding financial liabilities, trade payables and other liabilities at 31 December 2018 and 2017.

At 31 December 2018 *(in thousand of Euro)*	**Within 12 months**	**Between 1 and 5 years**	**more than 5 years**
Current and non-current financial liabilities	260	432	
Trade payables	45,585	-	-
Other debt and liabilities	33,939	312	-

As at 31 December 2017 *(in thousand of Euro)*	**Within 12 months**	**Between 1 and 5 years**	**more than 5 years**
Current and non-current financial liabilities	30,736	30,840	-
Trade payables	37,691	-	-
Other debt and liabilities	28,901	-	-

Capital risk

The Company's capital management objectives aim at safeguarding its ability to continue to ensure optimal capital soundness. In particular, the ratio between the Company's financial debt and equity was 0 and 0.35 at 31 December 2018 and 2017 respectively, an improvement to almost zero due to the repayment of the term loan during the financial year. The fair value of trade receivables and other financial assets, trade payables, financial liabilities (measured at amortized cost) and other payables recognized as "current" in the statement of financial position does not significantly differ from the carrying amounts of these items at 31 December 2017, as they mainly relate to assets arising from commercial transactions for which settlement is expected in the short term.

Non-current financial assets and liabilities are settled or measured at market rates and their fair value is considered to be broadly in line with their present carrying amounts.

Measurement of financial instruments at fair value

Financial instruments carried at fair value in the statement of financial position consist of financial hedging derivatives that are measured by means of a financial model that uses generally accepted market formulae as well as the following inputs provided by Reuters: Euribor and IRS rate curves and the volatilities and credit spreads of the various banking counterparties and of the securities issued by the Italian state. The fair value of derivative instruments represents the net position of asset and liability values.

With the repayment of the term credit line, the Company also terminated the relative edges in place in 2018 and, therefore, there are no derivatives finance contracts in place at 31 December 2018.

Estimates and Assumptions (note 5)

The preparation of financial statements requires the directors to apply accounting principles and methods which, in certain circumstances, depend upon difficult and subjective measurements and estimates based on historical experience and assumptions that at the time are considered reasonable and realistic with respect to the relative circumstances. The application of these estimates and assumptions affects the amounts reported in the financial statements, the statement of financial position, the income statement, the statement of comprehensive income and the cash flow statement and the disclosures. The final results of the items in the financial statements for which the above estimates and assumptions have been made could differ from those recorded in the financial statements, as these recognize the effects of the event estimated, due to the uncertainty inherent in the assumptions and conditions on which the estimates are based.

The following paragraphs provide a brief description of the areas which require greater subjectivity to be used by the directors in arriving at their estimates and for which a change in the conditions underlying the assumptions could have a significant effect on the reported figures.

Contingent liabilities

A liability is recognized for risks arising from disputes and litigation when an outflow of funds is considered probable and the amount can be reliably estimated. If an outflow of funds is considered possible but the amount of that outflow cannot be determined, this fact is disclosed in the notes to the financial statements. The Company is the defendant in legal cases (of an administrative and fiscal nature and relating to labour law) on a variety of issues. The Company constantly monitors the status of these pending litigations and engages the services of legal advisors. The related provision is accordingly based on the directors' best estimate at the date of preparation of the financial statements.

Revenues (note 6)

The item breaks down as follows.

	Financial year at 31 December	
(in thousand of Euro)	**2018**	**2017**
Revenues from Rai Group (*)	184,643	181,034
Revenues from third parties	33,084	35,162
Hospitality fees for equipment and apparatus	*30,533*	*32,352*
- Other	*2,551*	*2,810*
Total revenues from sales and services	**217,727**	**216,196**

(*) Revenues are recognised net of marginal costs of € 23,537 thousand (€ 23,385 thousand at 31/12/2017)

"Revenues" includes revenues accruing in the year from the provision of services that are part of the Company's normal business operations.

At 31 December 2018 Revenues rose by € 1,531 thousand compared to the previous year in 2017, from € 216,196 thousand in 2017 to € 217,727 thousand in 2018.

"Revenues from the Rai Group" amounted to € 184,643 thousand or 84.8% of total revenues for the year ended 31 December 2018 (€ 181,034 thousand or 83.7% of total revenues for the year ended 31 December 2017), and have increased by € 3,609 thousand compared to the same period in 2017. This increase derived mainly from advanced services requested by the customer Rai for "evolutionary services".

"Revenues from third parties" mainly includes revenues generated from the services of (i) tower rental, (ii) broadcasting, (iii) transmission, and (iv) network services, that the Company provided to third parties other than Rai and Group's companies. These revenues were down by € 2,078 thousand year-on-year, primarily due to lower tower rental services.

Other revenues and income (note 7)

The item breaks down as follows.

	Financial year at 31 December	
(in thousand of Euro)	**2018**	**2017**
Operating grants	68	19
Compensation for damages	32	727
Other revenues	47	50
Total other revenues and income	**147**	**796**

"Other revenues and income" amounted to € 147 thousand, a decrease of € 649 thousand compared to 31 December 2018, due mainly to lower income from compensation for damages.

Purchase of consumables (note 8)

The item breaks down as follows.

	Financial year at 31 December	
(in thousands of Euro)	**2018**	**2017**
Motor fuel purchase	740	703
Fuel purchase	131	218
Purchase of tools	79	392
Change in inventory	6	28
Total consumables	**956**	**1,341**

"Purchase of consumables" decreased by € 385 thousand to € 956 thousand compared to the value at 31 December 2017. This item mainly consists of the costs incurred for consumables (fuel and combustible for electricity generating groups and heating).

Cost of services (note 9)

The item breaks down as follows.

	Financial year to 31 December	
(in thousand of Euro)	**2018**	**2017**
Services of independent workers	2,404	1,740
Other services	2,834	2,912
Travel expenses, business trips and accessory personnel costs	1,953	1,858
Intercompany service agreement costs	10,437	10,889
Maintenance and repairs	4,359	5,171
Transport and similar	235	212
Utilities	13,303	13,251
Leasing and rentals	14,800	14,914
Total cost of services	**50,325**	**50,947**

"Cost of services" decrease by € 622 thousand (-1.2%) from € 50,947 thousand at 31 December 2017 to € 50,325 thousand at 31 December 2018. Set out below are the main changes in the above cost items and a description of the principal factors that led to these:

- "Other services" amounting to € 2,834 thousand decreased by € 78 thousand over the 2017 figure. This item included, among others, fees relating to the year for the legal audit of the annual accounts amounting to € 79 thousand.
- "Travel expenses, business trips and accessory personnel costs" of € 1,953 thousand were up by € 95 thousand from the 2017 figures owing to an increase in travel costs.
- "Intercompany service agreement costs" include the services provided by the Parent Company; there was a decrease of € 452 thousand

between 2017 and 2018 as the result of efficiency improving activities on some services related to the intercompany service agreement, in particular relating to leases and ICT service costs;

- "Maintenance and repairs" includes network infrastructure maintenance costs; it has a balance of € 4,359 thousand, down by € 812 thousand from the previous year owing mainly to the temporarily lower support costs for the management of transmission systems and less maintenance to building infrastructure;
- "Utilities" amounted to € 13,303 thousand at 31 December 2018 and principally include the costs incurred for electricity, telephone expenses and various utilities. The increase from 2017 of € 52 thousand is due mainly to increased electricity costs linked to the upward trend in prices compared with the previous period;
- "Leasing and rentals" consist mainly of the cost of renting buildings, hiring plant and equipment and hiring transmission circuits. The decrease recorded in 2018 of € 114 is attributable mainly to the lower costs for hiring vehicles and transmission systems.

The details of costs for services rendered by the company tasked with the statutory audit of financial statements and of companies belonging to the same network are given below.

Information pursuant to art. 149-duodecies of CONSOB' Issuers Regulation
(in thousand of Euro)

Type of task		**Remuneration for the 2018 financial year**
Statutory audit	PricewaterhouseCoopers S.p.A.	58
half-yearly financial statements	PricewaterhouseCoopers S.p.A.	21
Other services	PricewaterhouseCoopers S.p.A.	115
Total cost of services		**194**

Personnel costs (note10)

The item breaks down as follows.

(in thousand of Euro)	Financial year at 31 December 2018	2017
Salaries and wages	34,934	34,432
Social security contributions	10,303	9,805
Severance indemnity	2,080	2,050
Retirement persions and similar	786	850
Redundancy incentives	699	1,041
Other costs	31	1,534
Capitalized personnel costs	(2,763)	(2,573)
Totale personnel costs	**46,070**	**47,139**

"Personnel costs" amounted to € 46,070 thousand in 2018, down by € 1,069 thousand mainly as a result of the reduction in the Company's average number of employees due to redundancy incentives at the base of the plan launched by the Company back in 2016, the reduction in amounts of redundancy incentives, lower non-recurring costs and greater capitalised personnel costs.

Capitalised personnel costs amounted to € 2,763 thousand at 31 December 2018 (€ 2,573 thousand at 31 December 2017).

Further details on the economic effects arising from the accounting treatment for employee benefits may be found in note 29 "Employee benefits".

The following table sets out the average number of the Company's employees during the year and the number at year end:

	Average number of employees (*) for the financial year at		Actual number of employees for the financial year at	
(in units)	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Executives	21	24	21	23
Managers	138	141	138	141
White-collar workers	420	409	438	406
Blue-collar workers	22	32	18	31
Total	**601**	**606**	**615**	**601**

(*) The average values in the table include part-time employees.

Other costs (note 11)

The item breaks down as follows.

	Financial year at 31 December	
(in thousand of Euro)	**2018**	**2017**
Contribution to Supervisory Authorities	330	313
ICI/IMU/TASI	1,123	1,405
Taxes on production and consumption	1,148	1,152
Other indirect taxes, fees and levies	337	381
Other	476	551
Total other costs	**3,414**	**3,802**

"Other costs" decreased by € 388 thousand (-10.2%) from € 3,802 thousand at 31 December 2017 to € 3,414 thousand at 31 December 2018 mainly because of lower IMU and indirect taxes.

Write-downs of financial assets (note 12)

"Write-downs of financial assets" posted a balance of € 324 thousand at 31 December 2018, a decrease of € 610 thousand compared to the € 934 thousand at 31 December 2017. The drop was mainly driven by lower write-downs of financial assets during the year.

As of the year 2018, for the correct application of IFRS 9, impairment losses (and reversals) have been reclassified from "Amortisation, depreciation and write-downs" to the separate balance sheet item "Write-downs of financial assets". This reclassification was also adopted for values referred to the 2017 financial year.

Amortization, depreciation and other write-downs (note 13)

"Amortization", included in the item "Amortization, depreciation and write-downs", was € 32,926 thousand at 31 December 2018 (€ 33,565 thousand at 31 December 2017). The change of € 639 thousand was mainly due to the completion of the amortization process for certain assets.

Provisions (note 14)

"Provisions" amount to € 71 thousand, an increase of € 2,169 thousand compared to the previous financial year. At 31 December 2017, the item had a positive balance (positive revenue component) of € 2,098 thousand mainly due to releases following positive outcomes of civil disputes in terms of fees for occupation of public land. For the corresponding comments please refer to the item "Provision for risks and charges", note 30.

Financial income and expenses (note 15)

The item breaks down as follows.

	Financial year at 31 December	
(in thousand of Euro)	**2018**	**2017**
Exchange gains	(6)	38
Interest receivables from parent company	-	13
Other interest receivables	9	24
Total financial income	**3**	**75**
Interest on the obligation for employee benefits	(179)	(178)
Exchange losses	(20)	(11)
Interest on loans	(515)	(941)
Interest payables on exchange rate hedging operations	(43)	(56)
Interest for adjustment to the site commissioning and rest	(206)	(202)
Other, commissions and expenses	(278)	(299)
Total financial expenses	**(1,241)**	**(1,687)**
Total net financial income	**(1,238)**	**(1,612)**

"Financial income", which amounted to € 3 thousand, fell by € 72 thousand compared to 31 December 2017.

"Financial expenses" has a balance of € 1,241 thousand, down € 446 thousand compared to the same period of the previous year (€ 1,687 at 31 December 2017), mainly due to a decrease in "Interest on loans" determined by the full repayment of the term loan as described in the paragraph "Significant events".

Income tax (note 16)

The item breaks down as follows.

	Financial year at 31 December	
(in thousand of Euro)	**2018**	**2017**
Current taxes	24,030	21,800
Deferred taxes	(1,084)	1,733
Taxes relating to previous financial years	(143)	(47)
Total	**22,803**	**23,486**

"Current taxes" amounted to € 22,803 thousand in 2018 (of which € 20,110 for IRES and € 3,920 for IRAP respectively) with a net decrease compared to the 2017 financial year of € 683 thousand due to the effect on the one hand of the higher result before taxes and on the other by the greater impact in the current year of adjustments to taxable income deriving mainly from reduced use of provisions for risks and charges.

In more detail, deferred taxes posted a negative balance of € 1,084 thousand, a decrease of € 2,817 thousand compared to 31 December 2017, due mainly to the elimination of residual taxable temporary differences arising from mismatches between the carrying amount and taxable amount of the customer portfolio. The latter derived from the merger deficit from the merger by acquisition of Sud Engineering, for which the Company elected to exercise the substitute tax option to settle the relative tax liability. The decrease is also offset by the lesser release of prepaid tax assets following the reduced use of provisions relative to employee benefits and the tax effect of IFRS 15.

Deferred taxes consist of:

- Prepaid tax assets of € 143 thousand, mainly due to the reversal of the items "Provisions for risks and charges" and "Employee benefits";
- Deferred tax liabilities of € 941 thousand, mainly due to the item "Customer Portfolio" generated by the merger transaction with the company Sud Engineering.

The following table provides a reconciliation between the theoretical tax charge and the effective tax charge for the years ended 31 December 2018 and 2017.

	Financial year at 31 December			
(in thousand of Euro)	2018		2017	
Pre-tax profit	**82,549**		**79,750**	
Theoretical taxes	19,812	24,0%	19,140	24.0%
Taxes relating to previous financial yeai	(143)		(47)	
Permanent differences	(786)		613	
IRAP	3,920		3,780	
Total	**22,803**	**27.6%**	**23,486**	**29.4%**

Property, plant and equipment (note 17)

This item and changes during the year may be analysed as follows:

(in thousand of Euro)	Land	Buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Tangible assets in progress and prepayme nts	Total property, plant and equipment
Accounting values at 1 January 2018							
Cost at 1 January 2018	11,910	99,073	716,940	28,379	2,195	9,471	867,968
Depreciation provisions at 1 January 2018	-	(74,545)	(579,628)	(23,814)	(1,001)	-	(678,988)
Write-dow n provision at 1 January 2018	-	(13)	(281)	-	-	-	(294)
Net accounting value at 1 January 2018	**11,910**	**24,515**	**137,031**	**4,565**	**1,194**	**9,471**	**188,686**
Changes 2018							
Investments	**105**	**234**	**12,534**	**521**	**30**	**10,563**	**23,987**
Depreciation for the year	**-**	**(5,022)**	**(25,305)**	**(1,274)**	**(252)**	**-**	**(31,853)**
Write-down provision							
on available assets	-	6	245	-	-	-	251
on disposed assets	-		1	-	-	-	1
	-	**6**	**246**	**-**	**-**	**-**	**252**
Disinvestments							
Cost	(1)	(144)	(7,119)	(129)	-	(2)	(7,395)
Depreciation provisions	-	139	7,024	128	-	-	7,291
Net accounting value	**(1)**	**(5)**	**(95)**	**(1)**	**-**	**(2)**	**(104)**
Reclassifications	**-**	**620**	**6,541**	**156**	**6**	**(7,323)**	**-**
Transfers						**(30)**	**(30)**
Accounting values at 31 December 2018							
Cost at 31 December 2018	12,014	99,783	728,896	28,927	2,231	12,679	884,530
Depreciation provisions at 31 December 2018	-	(79,428)	(597,909)	(24,960)	(1,253)	-	(703,550)
Write-dow n provisions at 31 December 2018	-	(7)	(35)	-	-	-	(42)
Net accounting value at 31 December 2018	**12,014**	**20,348**	**130,952**	**3,967**	**978**	**12,679**	**180,938**

“Property, plant and equipment” amounted to € 180,938 thousand at 31 December 2018, representing a decrease of € 7,748 thousand compared to the previous financial year mainly arising from the depreciation charge partially offset by the investments made during the year (of € 23,987 thousand).

The item “Buildings” includes the present value of the estimated costs that the Company expects to incur in the future to restore the areas, acquired under an operating lease, to their original state prior to the construction of the infrastructure built thereon.

“Property, plant and equipment” includes the costs that may be capitalized as leasehold improvements.

An analysis of internal and external indicators did not produce any elements jeopardizing the recovery of the values of the assets and therefore the corresponding impairment test was not carried out.

Intangible assets (note 18)

Intangible assets amount to € 12,895 thousand, an increase of € 1.707 thousand compared to 31 December 2017 due primarily to investments made in the financial year (of € 3,002 thousand), partially offset by amortisation for the period (of € 1,325 thousand).

Even in the absence of internal and external indicators showing losses in value in relation to the item “Goodwill”, a sensitivity analysis was performed that nevertheless confirmed the recoverability of the value recorded in the financial statements, in line with IAS 36. The aforementioned analysis was performed using a WACC equal to 6% applied on future cash flows determined mainly as a result of the rationalization of the costs deriving from the merger incorporating Sud Engineering into Rai Way; for the evaluation, further sensitivity analyses were performed in relation to the financial parameters also adopted in determining the value in use, with the updating rate oscillating within a range of +/- 10% from the baseline figure used (6%), which however confirmed the recoverability of the value recorded in the financial statements.

The following table sets out movements for the year:

(in thousand of Euro)	Software	Goodwill	Other	Intangible assets in progress and prepayments	Total intangible assets
Accounting values at 1 January 2018					
Cost at 1 January 2018	2,934	4,970	3,350	929	12,183
Amortisation provision at 1 January 2018	(809)		(186)	-	(995)
Net accounting value at 1 January 2018	**2,125**	**4,970**	**3,164**	**929**	**11,188**
Changes 2018					
Investments	**1,349**			**1,653**	**3,002**
Amortisation for the year	**(1,114)**	-	**(211)**	-	**(1,325)**
Disinvestment					
Cost		-	-	-	-
Amortisation provisions		-	-	-	-
Net accounting value	**-**	-	-	**-**	**-**
Reclassifications	**363**	-	-	**(363)**	**-**
Transfers				**30**	**30**
Accounting values at 31 December 2018					
Cost at 31 December 2018	4,646	4,970	3,350	2,249	15,215
Amortisation provisions at 31 December 2018	(1,923)	-	(397)	-	(2,320)
Write-down provision at 31 December 2018	-	-	-	-	-
Net accounting value at 31 December 2018	**2,723**	**4,970**	**2,953**	**2,249**	**12,895**

Current and non-current financial assets and liabilities (note 19)

The following table sets out details of "Current financial assets" and "Non-current financial assets":

(in thousand of Euro)	at 31 December 2018	at 31 December 2017
Receivables from Parent Company	-	76
Other financial receivables	55	70
Total current financial assets	**55**	**146**
Accrued income and prepayments	2	54
Total non-current financial assets	**2**	**54**

Current financial assets amounted to € 55 thousand, a decrease of € 91 thousand compared to the previous financial year (€ 146 thousand at 31 December 2017) mainly due to the item "Receivables from Parent Company" which at 31 December 2018 had a negative balance and is therefore reported under current financial liabilities.

"Other Financial Receivables" of € 55 thousand (€ 70 thousand at 31 December 2017) refers to prepaid expenses relating to bank fees for loans.

Non-current financial assets consists of prepayments and accrued income of € 2 thousand, with a decrease of € 52 thousand over the previous year end.

The following table sets out details of "Current financial liabilities" and "Non-current financial liabilities" at 31 December 2018 and 2017:

At 31 December 2017 *(in thousand of Euro)*	Within 12 months	Between 1 and 5 years	More than 5 years	Total
Payables to banks	30,196	30,335	-	60,531
Payables to other lenders	77	271	-	348
Other financial payables	7	-	-	7
Total	**30,280**	**30,606**	**-**	**60,886**

At 31 December 2018 *(in thousand of Euro)*	Within 12 months	Between 1 and 5 years	More than 5 years	Total
Payables to banks	90	234	-	324
Payables to other lenders	78	194	-	272
Other financial payables	7	-	-	7
Payables to Parent Company	82	-	-	82
Total	**257**	**428**	**-**	**685**

In relation to "Payable to banks", it is noted that during the financial year the outstanding term credit granted under an agreement with Mediobanca, BNP

Paribas S.A., Intesa Sanpaolo S.p.A. and UBI Banca Società Cooperativa per Azioni was repaid in full. Under this agreement a medium-term loan was granted to the Company divided into two credit facilities, both to be used though cash draw-downs and both having a maturity at 30 September 2019, in particular:

- a term credit facility of up to € 120 million (of which € 120 million were drawn down) with interest payable at 6-month Euribor + 100 basis points, fully repaid in advance of maturity during the financial year just closed; and
- a revolving credit facility of up to € 50 million with interest payable at Euribor + 120 basis points, still active at 31 December 2018.

The Loan Agreement contains a series of general requirements and covenants for which the Company is responsible, and events of default in line with market practice for loans of a similar amount and nature, but does not however include restrictions or limitations on the payment of dividends by the Company.

The covenants include a commitment to comply with the following parameters, with which compliance is checked on a six-monthly basis and with which the present financial statements comply:

- Net financial position/shareholders' equity, which must be less than or equal to 2.75; and
- Net financial position/gross operating margin, which must be less than or equal to 2.75.

During the financial year Interest Rate Swap (IRS) contracts of 50% of the value of the term credit line were terminated with the adjustment at the same time of the corresponding value in the cash-flow hedge provision under shareholders' equity.

"Payable to banks" also includes the balance outstanding at 31 December 2018 of the ordinary loan granted by Mediocredito Centrale in connection with the investments financed by Law no. 488/92 (31st call for tender) which is repayable in six-monthly instalments and bears interest at an annual floating rate determined as the sum of the six-month Euribor rate plus an annual spread of

0.70%. The method by which the fair value of derivatives was determined is discussed in the paragraph "Financial risk management – Measurement of financial instruments at fair value". The following table sets out the fair value of current and non-current derivatives that are liabilities:

	At 31 December	At 31 December
(in thousand of Euro)	**2018**	**2017**
Contracts on interest rates	-	-
Total derivative financial instruments - Current portion	**-**	**-**
Contracts on interest rates	-	47
Total derivative financial instruments - Non-current portion	**-**	**47**
Total derivative financial instruments	**-**	**47**

"Payable to other lenders" consists mainly of the balance outstanding at 31 December 2018 of the subsidized loan granted by Cassa Depositi e Prestiti S.p.A. which is repayable in six-monthly instalments and bears interest at a subsidized rate of 0.50%.

The following table sets out the Company's net financial position, determined in accordance with paragraph 127 of ESMA document no. 81 of 2011 implementing Regulation (EC) no. 809/2004.

		At 31 December	At 31 December
	(in thousand of Euro)	**2018**	**2017**
A.	Cash	9	7
B.	Bank and post office checks and deposits	17,185	55,888
C.	Securities held for trading	-	-
D.	**Cash and cash equivalents (A) + (B) + (C)**	**17,194**	**55,895**
E.	**Current financial receivables**	**55**	**146**
F.	Current payables to banks	(90)	(30,196)
G.	Current portion of non current debt		
H.	Other current financial payables	(167)	(84)
I.	**Current financial debt (F) + (G) + (H)**	**(257)**	**(30,280)**
J.	**Net current financial debt (I) - (E) - (D)**	**16,992**	**25,761**
K.	Non current payables to banks	(234)	(30,335)
L.	Bonds issued	-	-
M.	Other non current payables	(195)	(271)
N.	**Non current financial debt (K) + (L) + (M)**	**(429)**	**(30,606)**
O.	**Net financial debt / Net financial position**	**16,563**	**(4,845)**

Deferred tax assets and liabilities (note 20)

The following table sets out changes in deferred tax assets and liabilities; for further details on the nature of deferred taxes see paragraph "Income taxes" (note 16):

Deferred tax assets and deferred tax liabilities

(in thousand of Euro)	At 31 December 2018	At 31 December 2017
Balance at the start of the financial year	**2,164**	**4,951**
Impact on income statement	1,084	(1,733)
Impact on the comprehensive income statement	(118)	(128)
Effect of merger with Sud Engineering		(926)
Effect of IFRS 15	191	
Balance at the end of the financial year	**3,321**	**2,164**
Of which:		
- prepaid tax assets	3,337	3,121
- deferred tax provision	(16)	(957)

The balance of this item reports the amount of assets for deferred taxes net of relative liabilities.

Changes in deferred tax assets may be analysed as follows:

(in thousand of Euro)	Provision for risks and charges	Employee benefits	Other items	Total
Balance at 31 December 2017	**2,207**	**594**	**320**	**3,121**
Impact on income statement	359	(39)	(177)	143
Impact on the comprehensive income statement		(104)	(14)	(118)
Impact of IFRS 15			191	191
Balance at 31 December 2018	**2,566**	**451**	**320**	**3,337**

Changes in deferred tax liabilities may be analysed as follows:

(in thousand of Euro)	Other items
Balance at 31 December 2017	**(957)**
Impact on income statement	941
Balance at 31 December 2018	**(16)**

Other non-current assets (note 21)

"Other non-current assets" at 31 December 2018 totalled € 1,318 thousand (€ 356 thousand at 31 December 2017), with an increase of € 962 thousand compared to the previous year, driven by the recognition of substitute tax paid on the merger deficit resulting from the merger by acquisition of the company Sud Engineering, which became effective as of 22 June 2017. In this regard, the Company opted for the ordinary regime provided by article 176, paragraph 2-ter of the Consolidated Income Tax Act, for which the substitute tax was recognised as a prepayment of current taxes of € 977 thousand.

"Other non-current assets" also includes guarantee deposits arising from agreements for leased assets and equipment hosting of € 342 thousand at 31 December 2018 (€ 356 thousand at 31 December 2017).

Inventory (note 22)

This item may be analysed as follows:

(in thousand of Euro)	At 31 December 2018	At 31 December 2017
Work in progress	226	226
Raw materials and consumables	660	666
Total Inventories	**886**	**892**

"Raw materials and consumables" relate to supplies and spare parts for the maintenance and use of technical business assets.

Trade receivables (note 23)

The item breaks down as follows.

(in thousand of Euro)	At 31 December 2018	At 31 December 2017
Receivables from Rai Group	66,491	58,558
Receivables from customers	7,289	15,794
Provision for bad and doubtful debts	(2,313)	(2,397)
Total trade receivables	**71,467**	**71,955**

"Receivables from Rai Group" consist of the balances due to the Company from RAI under the Service Agreement. The item shows an increase of € 7,933 thousand compared to the previous financial year. Further details may be found in the notes on "Revenues" and "Related party transactions".

"Receivables from customers" arise mainly from service revenues relating to (i) tower rental, (ii) broadcasting, (iii) transmission and (iv) network services which the Company renders to third party customers other than Rai; the item shows an increase of € 8,505 thousand compared to 31 December 2017.

The following table sets out changes in the provision for bad and doubtful debts:

(in thousand of Euro)	
Balance at 31 December 2017	**(2,397)**
Utilisations	499
Provisions	(448)
Releases	124
Other changes	(91)
Balance at 31 December 2018	**(2,313)**

Other current receivables and assets (note 24)

The item breaks down as follows.

(in thousand of Euro)	At 31 December 2018	At 31 December 2017
Receivable from the Parent Company for the tax consolid	2,456	2,456
Receivables from the Parent Company for the Group's VA	48	82
Other tax receivables	579	340
Accrued income and prepayments	1,799	1,759
Receivables from others	952	722
Total other current receivables and assets	**5,834**	**5,359**

"Receivables from the Parent Company for the tax consolidation" refer to the receivable arising from the application made for a refund of IRES corporate income tax regarding the deductibility of the IRAP regional production tax charged on personnel expenses.

As discussed in the section "Related party transactions", the Company avails itself of the Group VAT offsetting procedure permitted by the Ministerial Decree of 13 December 1979 on the regulations for implementing the provisions of article 73, last paragraph, of Decree of the President of the Republic no. 633 of 26 October 1972, recognizing the following transactions with the Parent Company showing a balance of € 48 thousand under the item "Receivables from the Parent Company for the Group's VAT". The item in question had a balance in 2017 of € 82 thousand.

"Other tax receivables" amounted to € 579 thousand and include receivable relating to VAT reimbursements not included in the above-mentioned procedure for € 344 thousand, receivables from tax authorities for Research and Development costs incurred in 2018 following new projects pursuant to Law 190/14 for € 227 thousand and other receivables for € 8 thousand. At 31 December 2017 the item total amount was € 340 thousand.

"Accrued income and prepayments" mainly regards the portion of the rental costs for land, industrial buildings and roads, systems hosting and various other expenses which were paid during the year but relate to future periods.

"Receivables from others" principally relate to amounts due from personnel for travel advances and receivables from social security organizations.

Current tax receivables (note 25)

The item breaks down as follows.

(in thousand of Euro)	At 31 December 2018	At 31 December 2017
IRES for Sud Engineering acquisition		8
Substitute tax advance Goodwill	62	
Total current tax receivables	**62**	**8**

Current income tax receivables amounted to € 62 thousand at 31 December 2018, a rise of € 54 thousand compared to the previous year. The higher figure was due to substitute tax paid on the merger deficit, as reported above in the section on "Other non-current assets".

Cash and cash equivalents (note 26)

The balance on this item amounted to € 17,194 thousand (€ 55,895 thousand at 31 December 2017). The decrease of € 38,702 thousand over the previous year is mainly due to the payment of dividends and to the repayment of the term credit line as described in the paragraph "Significant events".

Shareholders' equity (note 27)

Share capital

At 31 December 2018, Rai Way had a share capital of € 70,176 thousand consisting of 272,000,000 ordinary shares without nominal value.

Other reserves

"Other reserves" may be analysed as follows:

(in thousand of Euro)	At 31 December 2018	At 31 December 2017	Notes
Taxed extraordinary reserves	11,291	11,291	1,2,3
Reserves for advance depreciation/amortisation	9,360	9,360	1,2,3
Reserve for realignment of statutory/fiscal values for corporate assets	8,938	8,938	1,2,3,4
Reserve for first adoption of IFRS	7,490	7,490	2
Reserve for Cash Flow Hedge - Rates	-	(34)	-
Total other reserves	**37,079**	**37,045**	

Legend

1 for increase of capital

2 for covering losses

3 for distribution to shareholders

4 in case of utilisation different from covering losses, the amount must be subject to IRES and IRAP

Earnings per share (note 28)

Basic and diluted earnings per share have been calculated as follows:

(in thousand of Euro, unless otherwise indicated)	At 31 December 2018	At 31 December 2017
Net profit	59,746	56,263
Average number of ordinary shares	272,000,000	272,000,000
Earnings per share (basic and diluted) ***in Euro***	**0.22**	**0.21**

Basic and diluted earnings per share have the same value as there were no dilutive items at the balance sheet date.

Proposal for allocation of profit

The profit for the year of € 59,745,563.46 will be allocated in accordance with the resolution, set out below, that will be adopted by the Shareholders' Meeting of 18 April 2019:

"Having examined the explanatory report of the Board of Directors, the Shareholders' Meeting of Rai Way S.p.A.

resolves to allocate the net profit of the 2018 financial year of € 59,745,563.46

1. for € 59,731,200.00 as overall gross dividend of € 0.2196 to each of the ordinary shares in circulation to be paid from 22 May 2019, subject to entitlement to payment, pursuant to article 83-terdecies of Legislative

Decree of 24 February 1998, no. 58, and art. 2.6.6, paragraph 2, of the Regulation on Markets organized and managed by Borsa Italiana S.p.A., on 21 May 2019 (the record date) after detachment of coupon no. 5 on 20 May 2019";

2. for € 14,363.46 to the item "Profit (Loss) carry forward".

Employee benefits (note 29)

This item may be analysed as follows:

(in thousand of Euro)	Financial year at 31 December 2018	Financial year at 31 December 2017
Balance at start of the financial year	16,443	18,699
Provisions	2,084	2,049
Interest on obligation	179	178
Utilisation	(1,062)	(2,893)
Transferred to other provisions/Other changes	(2,118)	(1,093)
Actuarial (profit) / loss	(434)	(497)
Balance at the end of the financial year	**15,092**	**16,443**

The item Actuarial (profit)/loss of € 434 thousand relates to the actuarial components for the valuation of defined benefit plans ascribed directly to Shareholders' equity and the relative deferred taxes of € 104 thousand recorded in the Statement of comprehensive income.

Changes in "Employee benefits" may be analysed as follows:

(in thousand of Euro)	At 31 December 2018	At 31 December 2017
Severance indemnity	14,455	15,633
Other provisions	637	810
Total employee benefits	**15,092**	**16,443**

The decrease of € 1,351 thousand mainly relates to utilizations for leavers subscribing to the voluntary redundancy incentive scheme set up by the Company.

A further reduction is forecast in 2019, as a result mainly of the additional voluntary departures relating to the voluntary redundancy incentive scheme set up by the Company in 2018.

The actuarial assumptions used in calculating the employee severance indemnity were as follows:

	At 31 December	
(%; years)	**2018**	**2017**
Discount rate	1.21%	1.11%
Rate of inflation	1.50%	1.50%
Average annual percentage of personnel leaving	7.80%	7.80%
Annual probability of request of advance	1.50%	1.50%
Duration (in years)	8.6	8.5

In using these assumptions the value was also calculated of the employee severance pay liability obtained from variations of +/- 50 bps in the discount rate used for the valuation, giving a result of € 14,052 thousand and € 14,887 thousand respectively.

The item "Other provisions" referred to the company supplementary pension fund and the senior management assistance fund. With reference to the Company's pension fund (of € 498 thousand), actuarial assumption calculations have highlighted the value of the liability obtained from variations of +/- 50 bps in the discount rate used for the valuation giving a result of € 473 thousand and € 525 thousand respectively.

Provisions for risks and charges (note 30)

Changes in this item may be analysed as follows:

(in thousand of Euro)	Balance at 1 January 2018	Provisions	Utilisation	Releases	Other changes	Balance at 31 December 2018
Civil and administrative disputes	2,558	2	(156)	-	-	2,404
Amounts accrued	659	1,655	(596)	(63)	-	1,655
Other provisions for risks and charges	2,449	90	(137)	(20)	-	2,382
Provision for decommissioning and restoration	10,318	206	(7)	-		10,517
Total provisions for risks and charges	**15,984**	**1,953**	**(896)**	**(83)**	**-**	**16,958**

"Provisions for risks and charges" consist of accruals for costs and losses of a specific nature whose existence is certain but whose amount cannot be precisely determined, or whose existence is probable and whose amount can be reliably estimated. These provisions mainly regard the costs arising from civil and administrative judicial proceedings, from the provision recognized for the costs of dismantling and restoring transmission sites that are owned by other parties, and from previous costs relating to the renewal of title deeds for production sites.

Disbursements relating to this item, with the exception of the amounts accrued provision of which use will be made over the course of 2019, cannot be estimated with any certainty as they mainly depend on the timescale for judicial proceedings and strategic and/or legislative decisions on the composition and nature of the network for broadcasting radio and television signals which are currently not predictable.

Other non-current payables and liabilities (note 40)

The item totalled € 312 thousand (€ 0 at 31 December 2017) and included payables to the Tax Authority for the substitute tax on the merger deficit, as reported in the section on "Non-current assets", to be paid in June 2020.

Trade payables (note 31)

The item breaks down as follows.

(in thousand of Euro)	At 31 December 2018	At 31 December 2017
Ppayables to suppliers	42,738	33,428
Payables to Parent Company	2,847	4,262
Total trade payables	**45,585**	**37,690**

Further details about transactions with the Parent Company Rai may be found in the section "Related party transactions"..

The item "Payables to Parent Company" refers to trade payables to Rai, with the balance of € 2,847 thousand at 31 December 2018 representing a decrease of € 1,415 thousand over 31 December 2017. "Payables to suppliers" amount to € 42,738 thousand at 31 December 2018, with an increase of € 9,310 thousand compared to 31 December 2017.

Other current payables and liabilities (note 32)

The item breaks down as follows.

	Financial year at 31 December	
(in thousand of Euro)	**2018**	**2017**
Payables to the Parent Company for the tax consolidation	20,107	17,307
Payables to Parent Company for Group's VAT	-	-
Other tax payables	1,431	1,863
Payables to social security institutions	3,782	2,391
Payables to personnel	6,556	6,543
Other payables	1,079	568
Other payables and accrued liabilities	984	229
Total other payables and current liabilities	**33,939**	**28,901**

“Payables to the Parent Company for the tax consolidation” amount to € 20,107 thousand (€ 17,307 thousand at 31 December 2017) and consist of the IRES corporate income tax charge for the current year.

“Payables to personnel” amount to € 6,556 thousand, in line with the value for the previous financial year, and include € 844 thousand for the voluntary retirement incentive scheme (€ 1,178 thousand at 31 December 2017).

Further details about transactions with the Parent Rai regarding the IRES and VAT consolidation may be found in the section “Related party transactions”, while tax payables not forming part of this procedure are reported in the following table (IRAP and the second instalment of the substitute tax on the merger deficit as specified in paragraph “Non-current assets”, and liberation of Goodwill).

Current tax payables (note 33)

The item breaks down as follows.

	A 31 December	A 31 December
(in thousand of Euro)	**2018**	**2017**
Direct IRAP taxes	163	410
Tax liability on Goodw ill	416	
Total current tax payables	**579**	**410**

Payables for current income taxes amounted to € 579 thousand at 31 December 2018, an increase of € 169 thousand compared to 31 December 2017 due to the effect of IRAP tax payables and the recognition of the substitute tax due on the merger deficit, as reported in the section on “Non-current assets”.

Commitments and guarantees (note 34)

Commitments referring only to technical investments amount to € 11.9 million at 31 December 2018 (€ 10.3 million at 31 December 2017).

Guarantees including assets with third parties at 31 December 2018 amounted to € 53,439 thousand (€ 65,803 thousand at 31 December 2017) and mainly regard personal guarantees received for the obligations of other parties and guarantees of third parties pledged for the Company's obligations for liabilities and payables.

OTHER INFORMATION (NOTE 35)

Contingent liabilities

The Company is party to certain legal disputes pending before Regional Administrative Courts relating to the use of radio and television signal transmission frequencies. In particular, the issue in dispute is the interference that this causes with the radio and/or television signal transmitted by other industry operators. All disputes are constantly monitored by the Company's legal office, which to this purpose engages the support of leading law firms specializing in administrative disputes. The amounts recognized in the financial statements as provisions for risks and charges represent management's best estimate of the outcome of the pending disputes and have been calculated by taking into account the opinions of the external legal counsels assisting the Company.

The Company is also party to a number of law suits brought by employees and former employees in relation to alleged faulty applications of the current regulations governing employee agreements. As previously noted, as far as this type of litigation is concerned the Company makes use of support provided by leading law firms specializing in labour law during the litigation proceedings as well as employing the services of its in-house legal department. The amounts recognized in the financial statements to provide against the risk of losing the litigation have been calculated by management by estimating, on the basis of the professional assessment of the external lawyers representing the Company in court, the probable cost to be borne by Rai Way, taking into consideration the present stage of the litigation.

Finally, Rai Way is a party to a number of law suits of a civil nature relating to the way in which the fee due for the occupation of public space by the Company's owned installations is calculated.

Although it is arguing its case in the applicable courts, assisted in this by the support of specialized law firms, also taking into account the professional opinions formulated by these firms concerning the expected outcome of the pending disputes, the Company has recognized as provisions for risks and charges in its financial statements the amounts that management considers it probable that it will be required to pay should it lose the cases.

In order to provide supplementary information on the matters discussed above, it should forthwith be stated that in carrying out its ordinary operations the Company avails itself of the hosting services of third parties to position its installations on the land, buildings or structures of such parties. Since these hosting services are generally formalized through contracts or similar legal instruments (for example: transfers of surface rights, concessions of public spaces, etc.), the Company may have to incur costs for the removal of network infrastructures in the event that the contractual relationships with the third party hosts are not renewed or expire. A number of specific disputes are currently in progress on this matter, which could lead to the determination of these costs, at present not quantifiable, in the near future. The Company accordingly believes that the possibility exists that it may in the future have to incur costs to satisfy the claims it has received, and in this respect has created a provision for site decommissioning and restoration in the financial statements for this purpose.

If the circumstances discussed above should change in the future, with the likelihood of the Company having to incur costs that exceed the amount recognized in the site dismantling and restoration provision becoming more probable, all necessary measures will be taken to protect the Company's interests and adequately portray the changed situation in the financial statements.

Compensation payable to Directors and Statutory Auditors (note 36)

The compensation payable to directors and statutory auditors, including travel expenses, is as follows:

	Financial year at 31 December	
(in thousand of Euro)	**2018**	**2017**
Remuneration to Directors	693	603
Remuneration to Statutory Auditors	89	82
Total Directors and Statutory Auditors	**782**	**685**

Events subsequent to 31 December 2018 (note 37)

There are no significant events to report.

Related party transactions (note 38)

Details of the transactions the Company carried out with related parties in the years ended 31 December 2018 and 2017 are provided in the following; related parties are identified on the basis of IAS 24 Related Party Disclosures. The Company carries out transactions mainly of a commercial and financial nature with the following related parties:

- Rai ("Parent Company" in the tables below)
- the Group's key management ("Senior Management");
- other subsidiaries of Rai and/or companies in which the Parent Company has an interest ("Other related parties").

Related party transactions are conducted under normal market conditions.

The following table sets out details of the Company's balances with related parties at 31 December 2018 and 2017:

(in thousand of Euro)	Parent company	Top Management	Other related parties	Total
Non-current financial assets				
At 31 December 2018	-	-	-	-
At 31 December 2017	-	-	-	-
Current financial assets				
At 31 December 2018	-	-	-	**-**
At 31 December 2017	76	-	-	**76**
Current trade receivables				
At 31 December 2018	66,491	-	303	**66,794**
At 31 December 2017	58,558	-	255	**58,813**
Other current receivables and assets				
At 31 December 2018	2,504	-	10	**2,514**
At 31 December 2017	2,538	-	10	**2,548**
Current financial liabilities				
At 31 December 2018	82	-	-	**82**
At 31 December 2017	-	-	-	-
Trade payables				
At 31 December 2018	2,847	-	-	**2,847**
At 31 December 2017	4,262	-	-	**4,262**
Other current payables and liabilities				
At 31 December 2018	20,549	691	143	**21,383**
At 31 December 2017	17,311	849	-	**18,160**
Employee benefits				
At 31 December 2018	-	120	113	**233**
At 31 December 2017	-	120	117	**237**

The following table sets out details of the Company's transactions with related parties in the years ended 31 December 2018 and 2017:

(in thousand of Euro)	Parent company	Top Management	Other related parties	Total
Revenues (*)				
Financial year at 31 December 2018	207,060	-	1,120	**208,180**
Financial year at 31 December 2017	203,382	-	1,036	**204,418**
Other revenues and income				
Financial year at 31 December 2018	-	-	-	**-**
Financial year at 31 December 2017	-	-	-	**-**
Purchase of consumables				
Financial year at 31 December 2018	-	-	-	**-**
Financial year at 31 December 2017	1	-	-	**1**
Cost of services				
Financial year at 31 December 2018	10,895	-	12	**10,907**
Financial year at 31 December 2017	11,615	60	12	**11,687**
Personnel costs				
Financial year at 31 December 2018	30	2,207	798	**3,035**
Financial year at 31 December 2017	(3)	3,051	876	**3,924**
Other costs				
Financial year at 31 December 2018	123	-	-	**123**
Financial year at 31 December 2017	91	-	-	**91**
Financial income				
Financial year at 31 December 2018	-	-	-	**-**
Financial year at 31 December 2017	13	-	-	**13**
Financial charges				
Financial year at 31 December 2018	-	-	-	**-**
Financial year at 31 December 2017	-	-	-	**-**

(*) The amounts are recognised gross of margin costs to the Parent Company for € 22,755 thousand (€ 22,678 thousand at 31 December 2017) and to Other related parties for € 782 thousand (€ 707 thousand at 31 December 2017)

Parent Company

The Company carries out transactions with the Parent Company that are mostly of a commercial nature.

Financial agreements between Rai Way and Rai

Financial relationships between the Company and Rai were governed by the following agreements originally entered into on 16 July 2007 and tacitly renewed annually:

- Centralized treasury agreement

- Intercompany current account agreement
- Agency agreement
- Credit facility agreement

Under the centralized treasury agreement the Company's financial management was assigned to the Parent Company by a system of cash pooling. The Company had stipulated an agreement with Banca Intesa Sanpaolo under which at the end of each working day (at close of business) the bank transferred the outstanding balance on the Company's current account (the "Source Account") to the current bank account held by Rai; as a consequence of the agreement there was always a nil balance on the Source Account at the end of the day. The agreement did not provide for any charges to be borne by the Company but the debit or credit balances on the intercompany current account were remunerated by virtue of the agreement discussed below.

The intercompany current account provided for the automatic transfer of the positive and negative balances arising from the bank cash pooling and from the economic and financial transactions conducted between the Company and Rai to an intercompany current account set up for the purpose. The Parent Company applied interest on these balances at money market rates (Euribor) plus/minus a spread that was updated on a quarterly basis.

The agency agreement allowed Rai to settle and collect the payables and receivables due to or from the other companies of the Rai Group.

The credit facility agreement provided for the opening of a credit facility in the Company's favour transacted through the intercompany current account up to an amount of € 100 million. The facility varied, depending on the Company's cash requirements, within the limits of the financial plans approved by the Parent Company. Any balances arising from this arrangement, which had an original term of one year and was tacitly renewable, had to be repaid immediately if the centralized treasury agreement was terminated or if there were any changes to the current ownership structures of the Company.

As of the listing date the Company entered into a loan agreement with a syndicate of banks, discussed in the section "Current and non-current financial assets and liabilities". At the same time starting from the disbursement of this loan only the intercompany current account agreement and the agency agreement were novated with respect to the Company's operational and financial independence vis-à-vis the Parent Company. The centralized treasury agreement and the credit facility agreement were terminated as of 18 November 2014, while a new intercompany current account agreement was set up to deal with the residual balances.

The Company has recognized the following balances in its financial statements with respect to the intercompany current account:

- a nil balance for financial expenses for both 2018 and 2017;
- current financial payables of € 82 thousand at 31 December 2018 and current financial receivables of € 76 thousand in 2017.

The 2000-2014 Service Agreement

The 2000-2014 Service Agreement executed on 5 June 2000 and valid until 31 December 2014 in the version subsequently supplemented and amended mainly regards the provision of services for the installation, maintenance and operation of telecommunications networks and services for the transmission, distribution and broadcasting of radio and television signals and programs for which a monthly fee is paid which depends on the type of service provided (i.e. services that Rai Way renders using its own resources or those of third parties, investments requested by Rai, digital terrestrial television broadcasting services and other services established by the parties).

The above-mentioned 2000-2014 Service Agreement was renegotiated on 31 July 2014, with effect from 1 July 2014. As a result of this agreement the Company has recognized revenues and receivables as described in the sections "Revenues" and "Trade receivables" of these notes.

Service agreement with Rai and the rental agreement with related services

“The Rai service agreement” entered into in 2006 mainly relates to the provision of the following services:

- personnel administration;
- general services;
- insurance policies;
- IT systems;
- administration;
- finance;
- research and technological innovation centre;
- advice and legal counsel.

The agreement expired on 31 December 2010 and remained in force until 30 June 2014; it was then renewed on 31 July 2014 with effect as of 1 July 2014.

The “Agreement for leases and for the performance of connected services”, relating to the lease of property and/or portions of property, including the flat roofs on which the systems for the transmission and/or broadcasting of radio and television signals stand, owned by Rai Way or third parties hosted by it, was originally executed on 19 April 2001 and had an original term of six years tacitly renewable for further six-year periods (the current term expires in 2019).

The fees for the above services, including the property rent and ancillary services, are identified on the basis of the valuation criteria for each service stated in the technical specifications. As the result of these agreements the Company recognized:

- cost of services of € 10,895 thousand and € 11,615 thousand in 2018 and 2017 respectively;
- trade payables of € 2,847 thousand and € 4,262 thousand at 31 December 2018 and 2017 respectively.

Tax consolidation

On the basis of the Consolidated Income Tax Act (article 117 and following of Presidential Decree no. 917/86) and in accordance with the provisions contained in article 11, paragraph 4 of the Ministerial Decree of 9 June 2004 as subsequently amended by Ministerial Decree of 1 March 2018 which reviews the "Provisions for the application of the domestic tax consolidation as per articles 117 to 128 of the Consolidated Income Tax Act", Rai Way applies the group tax regime governed by the "Agreement for the exercise of the option with Rai for the domestic tax consolidation". This agreement, which governs all the mutual obligations and responsibilities between the Parent Company and the Company, is effective for fiscal years 2016, 2017 and 2018.

As a consequence of the tax consolidation the Company recognized "Other current payables and liabilities" of € 20,107 thousand and € 17,307 thousand at 31 December 2018 and 2017 respectively and "Other current receivables and assets" of € 2,456 thousand at 31 December 2018 and at 31 December 2017.

The Group's VAT regime

The Company avails itself of the Group VAT offsetting procedure permitted by Ministerial Decree of 13 December 1979 on the regulations for implementing the provisions of article 73, last paragraph, of Decree of the President of the Republic no. 633 of 26 October 1972, recording in relation to the Parent Company under "Other current receivables and assets" a balance at 31 December 2018 of € 48 thousand (€ 82 thousand at 31 December 2017).

Senior Management

"Key management personnel" means key executives who have the power and direct and indirect responsibility for planning, managing and controlling the Company's activities, and among others includes the members of the Company's Board of Directors. The Company has recognized in its financial statements:

- cost of services of € 0 thousand at 31 December 2018 and € 60 thousand at 31 December 2017;

- personnel costs of € 2,207 thousand and € 3,051 thousand in at 31 December 2018 and 2017 respectively.

Other related parties

The Company has dealings of a commercial nature with other related parties and in particular with:

- Rai Com S.p.A., to which the Company provides transmission services;
- San Marino RTV which provides hosting services and receives transmission services from Rai Way;
- supplementary pension funds for employees and executives.

Information relating to the provisions of Law no. 124/2017 - Transparency on the system for the issue of public funds (note 39)

With reference to the provisions of art. 1, paragraphs 125-129 of Law no. 124/2017 "Annual law for the market and competition", subsequently supplemented by law decree "Safety" (no. 113/2018) and law decree "Simplification" (no. 135/2018), there are no significant events referable to these specific cases.

Rome, 14 March 2019

On behalf of the Board of Directors

The Chairman

Raffaele Agrusti

Declaration on the annual financial statements pursuant to article 81-ter of CONSOB Regulation no. 11971 of 14 May 1999 and subsequent amendments

- The undersigned Aldo Mancino as Chief Executive Officer and Adalberto Pellegrino as Manager in charge of preparing the corporate documents of Rai Way S.p.A. certify the following, taking into account the provisions of article 154-bis, paragraphs 3 and 4 of Legislative Decree no. 58 of 24 February 1998:
  - the adequacy in relation to the characteristics of the business and
  - the effective application of the administrative and accounting procedures for the preparation of the Company's annual financial statements during 2018.

- The assessment of the adequacy of the administrative and accounting procedures for the preparation of the annual financial statements for the year ended 31 December 2018 was performed on the basis of the process defined by Rai Way S.p.A., taking as reference the criteria established in the model "Internal Controls – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

- We also certify that:
  - the annual financial statements of Rai Way S.p.A. for the year ended 31 December 2018:
    a) have been prepared in accordance with the applicable international accounting standards adopted by the European Union pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
    b) agree with the balances on the books of account and the accounting entries;
    c) give a true and fair view of the financial position, results of operations and cash flows of the issuer;
  - the report on operations includes a reliable analysis of the performance and results for the year as well as the issuer's position, together with a description of the main risks and uncertainties to which it is exposed.

Rome, 14 March 2019

Aldo Mancino	*Adalberto Pellegrino*
Chief Executive Officer	Manager in charge of preparing the corporate accounting documents

PROPOSAL TO THE SHAREHOLDERS' MEETING

Annual financial statements for the year ended 31 December 2018; Report on Operations of the Board of Directors; Report of the Board of Statutory Auditors and Report of the Independent Auditors. Relative resolutions.

Dear Shareholders,

The Annual Financial Report at 31 December 2018, containing the Company's draft Annual Financial Statements, along with the Report on Operations of the Board of Directors and the declaration pursuant to art. 154-bis, paragraph 5, of Legislative Decree of 24 February 1998, no. 58, will be made available to the public by the methods (including publication on the Company's website, www.raiway.it, section Corporate Governance/Shareholders' Meeting/Meetings/Ordinary Meeting of 18 April 2019) and terms set out by law, as will the Report of the Board of Statutory Auditors and the Report of the Independent Auditors.

Remitting to those documents we invite you to approve the annual financial statements for the year ended 31 December 2018 (which close with a profit for the year of € 59,745,563.46), proposing the following resolution:

"The Shareholders' Meeting of Rai Way S.p.A.

- having examined the Report on Operations of the Board of Directors;
- acknowledging the Report of the Board of Statutory Auditors and the Report of the External Auditors PricewaterhouseCoopers S.p.A.;
- having examined the draft annual financial statements for the year ended 31 December 2018 prepared by the Board of Directors, which close with profit for the year of € 59,745,563.46;

resolves

to approve the annual financial statements for the year ended 31 December 2018."

Rome, 14 March 2019

On behalf of the Board of Directors

The Chairman

Raffaele Agrusti

Proposal for allocation of profit for the year. Relative resolutions.

Dear Shareholders,

taking into account the net profit for the year 2018 of € 59,745,563.46, arising from the financial statements at 31 December 2018, as well of the other issues highlighted by these financial statements, also in consideration of the already reached capacity of the legal reserve pursuant to art. 2430 of the Italian Civil Code, it is proposed to allocate the net profit for the 2018 financial year to the distribution to shareholders as dividend for a total of € 59,731,200.00 and to "Retained earnings" for the remaining € 14,363.46, and subsequently to allocate a gross dividend of € 0.2196 to each of the ordinary shares in circulation to be paid from 22 May 2019, subject to entitlement to payment, pursuant to article 83-terdecies of Legislative Decree no. 58 of 24 February 1998 and art. 2.6.6, paragraph 2 of the Regulation on Markets organized and managed by Borsa Italiana S.p.A., on 21 May 2019 (the record date) after detachment of coupon no. 5 on 20 May 2019.

By virtue of the above, we therefore propose that you adopt the following resolution:

"Having examined the explanatory report of the Board of Directors, the Shareholders' Meeting of Rai Way S.p.A.

resolves

to allocate the net profit for the year 2018 of € 59,745,563.46 to the distribution to shareholders as dividend for a total of € 59,731,200.00 and to "Retained earnings" for the remaining € 14,363.46, and subsequently to allocate a dividend of € 0.2196 (gross) to each of the ordinary shares in circulation to be paid from 22 May 2019, subject to entitlement to payment, pursuant to article 83-terdecies of Legislative Decree of 24 February 1998, no. 58, and art. 2.6.6, paragraph 2, of the Regulation on Markets organized and managed by Borsa Italiana S.p.A., on 21 May 2019 (the record date) after detachment of coupon no. 5 on 20 May 2019."

Rome, 14 March 2019

On behalf of the Board of Directors

The Chairman

Raffaele Agrusti