Consolidated financial statements as at **31 December 2017**

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Financial Statements of the Rai Group

Consolidated statement of financial position

(€/million)	Note	Year ended	
		31 December 2017	31 December 2016
Property, plant and equipment.	12.1	1,070.3	1,082.5
Real estate investments	12.2	4.7	4.9
Intangible assets	12.3	944.9	950.4
Equity investments	12.4	6.9	9.1
Non-current financial assets	12.5	4.6	0.2
Deferred tax assets	12.6	-	-
Other non-current assets	12.7	15.2	17.7
Total non-current assets		2,046.6	2,064.8
Inventory	13.1	2.4	2.9
Trade receivables	13.2	390.6	637.0
Current financial assets	13.3	7.2	7.4
Current income tax receivables	13.4	21.7	20.2
Other current receivables and assets	13.5	69.6	194.1
Cash and cash equivalents	13.6	228.0	86.2
Total current assets		719.5	947.8
Total assets		**2,766.1**	**3,012.6**
Share capital		242.5	242.5
Reserves		209.9	205.9
Retained earnings (losses)		(34.1)	(28.4)
Total Group shareholders' equity		418.3	420.0
Third party capital and reserves		42.2	42.2
Retained earnings (losses) attributable to minority interests carried forward		19.6	14.4
Total shareholders' equity attributable to minority interests		61.8	56.6
Total shareholders' equity	**14**	**480.1**	**476.6**
Non-current financial liabilities	15.1	403.4	442.7
Employee benefits	15.2	483.1	555.0
Provisions for non-current risks and charges	15.3	185.3	228.1
Deferred tax liabilities	15.4	38.6	24.2
Other non-current payables and liabilities	15.5	2.0	3.6
Total non-current liabilities		1,112.4	1,253.6
Trade payables	16.1	660.1	686.2
Current provisions for risks and charges		0.3	0.4
Current financial liabilities	16.2	40.8	200.5
Current income tax payables	16.3	30.5	47.8
Other current payables and liabilities	16.1	441.9	347.5
Total current liabilities		1,173.6	1,282.4
Total liabilities		**2,286.0**	**2,536.0**
Total shareholders' equity and liabilities		**2,766.1**	**3,012.6**

Consolidated income statement

(€/million)	Note	Year ended	
		31 December 2017	31 December 2016
Revenue from sales and services	17.1	2,608.4	2,791.3
Other revenue and income	17.2	15.6	18.2
Total revenue		**2,624.0**	**2,809.5**
Costs for the purchase of consumables	17.3	(13.6)	(13.9)
Costs for services	17.3	(950.6)	(1,078.8)
Other costs	17.3	(69.6)	(58.6)
HR expenses	17.4	(983.3)	(1,031.7)
Depreciation, amortisation and write-downs	17.5	(576.9)	(543.4)
Provisions	17.6	3.2	(18.8)
Total costs		**(2,590.8)**	**(2,745.2)**
EBIT		**33.2**	**64.3**
Financial income	17.7	8.1	2.6
Financial expense	17.7	(16.8)	(20.8)
Earnings from equity investments recognised under the equity method	17.8	(0.5)	(0.7)
Pre-tax profit/(loss)		**24.0**	**45.4**
Income tax	17.9	(9.7)	(27.3)
Result net of operating activities		**14.3**	**18.1**
Profit/(Loss) for the year		**14.3**	**18.1**

of which attributable:			
- to the Group		(5.4)	3.5
- to minority interests		19.7	14.6

Consolidated statement of comprehensive income

(€/million)	Year ended	
	31 December 2017	31 December 2016
Profit/(Loss) for the year	**14.3**	**18.1**
Items that can be reclassified to the Income statement:		
Profit/(Loss) on cash flow hedge	0.6	(6.8)
Conversion of balances with currency that is not the Euro	-	(0.1)
Tax effect	(0.1)	2.2
Total	**0.5**	**(4.7)**
Items that cannot be reclassified to the Income statement:		
Recalculation of defined-benefit plans	3.4	(16.1)
Tax effect	(0.1)	0.2
Total	**3.3**	**(15.9)**
Total profit/(loss) for the year	**18.1**	**(2.5)**
of which attributable:		
- to the Group	(1.7)	(16.9)
- to minority interests	19.8	14.4

Consolidated cash flow statement

(€/million)	Note	Year ended	
		31 December 2017	31 December 2016
Gain (Loss) before tax		**24.0**	**45.4**
Adjustments for:			
Depreciation, amortisation and write-downs	17.5	576.9	543.4
Provisions and (issues) of personnel provisions and other provisions	17.6	6.0	109.4
Net financial charges/(income)	17.7	8.7	18.2
Earnings from equity investments recognised under the equity method	12.4	0.5	0.7
Other non-monetary items		0.5	0.1
Cash flow generated by operating activities before changes in net working capital		**616.6**	**717.2**
Change in inventory	13.1	0.5	(0.2)
Change in trade receivables	13.2	244.6	(202.9)
Change in trade payables	16.1	(26.1)	19.8
Change in other assets/liabilities		221.0	(19.5)
Use of provision for risks	15.3	(45.9)	(38.3)
Payment of employee benefits and to external provisions	15.2	(78.4)	(72.1)
Taxes paid		(12.1)	(6.1)
Net cash flow generated by operating activities		**920.2**	**397.9**
Investments in property, plant and equipment and real estate investments	12.1 - 12.2	(91.7)	(74.5)
Disposal of property, plant and equipment and real estate investments	12.1 - 12.2	0.9	0.8
Investments in intangible assets	12.3	(464.3)	(484.0)
Disposal of intangible assets	12.3	1.1	1.7
Equity investments	12.4	(0.2)	-
Dividends collected	12.4	1.9	0.7
Interest collected		0.1	0.1
Change in financial assets	12.5 - 13.3	(3.8)	(0.2)
Net cash flow generated by investment activity		**(556.0)**	**(555.4)**
Long-term loans taken out	15.1	-	-
Long-term loan redemptions	15.1	(40.2)	(35.2)
(Decrease)/Increase in short-term borrowings and other loans	16.2	(160.2)	154.7
Interest paid		(7.4)	(8.2)
Dividends distributed		(14.6)	(13.7)
Net cash flow generated by financial activities		**(222.4)**	**97.6**
Change in cash and cash equivalents		**141.8**	**(59.9)**
Cash and cash equivalents at the beginning of the year	13.6	86.2	146.1
Cash and cash equivalents at the end of the year	**13.6**	**228.0**	**86.2**

Statement of changes in consolidated equity

(€/million)	Share capital	Legal reserve	Other reserves	Retained earnings (losses)	Group shareholders' equity	Shareholders' equity attributable to minority interests	Total shareholders' equity
Balances as at 1 January 2016	242.5	11.6	489.0	(306.6)	436.5	56.3	492.8
Allocation of profit	-	-	(290.6)	290.6	-	-	-
Distribution of dividends	-	-	-	-	-	(13.7)	**(13.7)**
Other movements [1]	-	-	0.6	(0.2)	0.4	(0.4)	-
Transactions with Shareholders	-	-	0.6	(0.2)	0.4	(14.1)	(13.7)
Profit/(Loss) for the year	-	-	-	3.5	3.5	14.6	**18.1**
Statement of Comprehensive Income components			(4.7)	(15.7)	(20.4)	(0.2)	**(20.6)**
Total profit/(loss) for the year	-	-	(4.7)	(12.2)	(16.9)	14.4	(2.5)
Balances as at 31 December 2016	**242.5**	**11.6**	**194.3**	**(28.4)**	**420.0**	**56.6**	**476.6**
Balances as at 1 January 2017	242.5	11.6	194.3	(28.4)	420.0	56.6	476.6
Allocation of profit	-	0.2	3.3	(3.5)	-	-	-
Distribution of dividends	-	-	-	-	-	(14.6)	**(14.6)**
Other movements	-	-	-	-	-	-	-
Transactions with Shareholders	-	-	-	-	-	(14.6)	(14.6)
Profit/(Loss) for the year	-	-	-	(5.4)	(5.4)	19.7	**14.3**
Statement of Comprehensive Income components	-	-	0.5	3.2	3.7	0.1	**3.8**
Total profit/(loss) for the year	-	-	0.5	(2.2)	(1.7)	19.8	18.1
Balances as at 31 December 2017	**242.5**	**11.8**	**198.1**	**(34.1)**	**418.3**	**61.8**	**480.1**

[1] Effect caused by the difference between the value of the option included in the Rai Way IPO (Bonus share) estimated when the right and effective value at the due date arose.

Notes to the Consolidated Financial Statements as at 31 December 2017

1) General information

Rai Radiotelevisione italiana SpA (hereinafter “Rai”, the “Company” or the “Parent Company”) is a joint-stock company formed and domiciled in Italy, with registered office in Rome at Viale Mazzini 14, and organised according to Italian law.

The Consolidated Financial Statements as at 31 December 2017 (hereinafter “Consoldiated Financial Statements”), as described hereinafter, were prepared in compliance with the International Financial Reporting Standards (“IFRS”).

The Company and its subsidiaries (jointly the “Group”) operate in Italy in the role of general radio and television Public Service. On the strength of specific Italian and EU regulatory sources, the Parent Company is required to meet precise programming quality and quantity obligations that are described in detail in the Service Contract drawn up with the Ministry of Economic Development (hereinafter also the “Contract”).

With Prime Ministerial Decree of 28 April 2017 containing “Assignment of the radio, televisions and multimedia Public Service concession and approval fo the annexed draft agreement”, Rai was formed as concessionaire of the radio, television and multimedia Public Service on an exclusive basis for a decade, starting from 30 April 2017.

In its meeting of 22 December 2017, the Council of Ministers definitively resolved the draft national Service Contract between the Ministry of Economic Development (MISE) and Rai for the period 2018-2022 after the Parliamentary General Policy and Supervisory Committee for radio and TV systems voiced its prescribed opinion on 19 December 2017. The Contract was later approved by the Board of Directors of the Company on 11 January 2018 and was signed by the parties. The Contract was published in the Official Journal on 7 March 2018.

The Contract relates to the activity that Rai performs in order to carry out the Public Service and, in particular, the radio, television and multimedia services broadcast through the various platforms in all modes, the use of the necessary transmission capacity, the creation of editorial content, the provision of technological services for the production and transmission of the signal using analogue and digital technology, and the preparation and management of control and monitoring systems.

The capital of the Company is respectively held by:
- Ministry of Economy and Finance (99.5583%);
- SIAE Società Italiana Autori Editori (0.4417%).

The Consolidated Financial Statements are audited by the company PricewaterhouseCoopers SpA (hereinafter the “External Auditor”) to which the Rai Ordinary General Meeting of Shareholders, upon the proposal put forward by the Board of Statutory Auditors, assigned the appointment for the financial years until 2023 on 10 March 2016, in consideration of Rai’s acquisition of status of Public Interest Entity.

2) Drafting policies

In connection with the provisions of Legislative Decree 38 of 28 February 2005, in preparing its Consolidated Financial Statements, the Company applies the 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 pursuant to Art. 6 of (EC) Regulation 1606/2002 of the European Parliament and Council of 19 July 2002. IFRS herein refers to all international accounting standards (“IAS”) and all interpretations of the International Financial Reporting Standard Interpretations Committee (“IFRIC”), previously called “Standard Interpretations Committee” (“SIC”). In preparing these Consolidated Financial Statements, the Group provided complete information, applying the IFRS consistently to the periods stated in these Consolidated Financial Statements, and also implemented the reclassifications needed to ensure full comparability with the data of the previous year.

The structure of the Consolidated Financial Statements of the Group provides for:
- the items of the Consolidated financial position being classified as current and non-current;
- the items of the Consolidated income statement being classified by type;
- the consolidated Statement of comprehensive income being presented separately from the Consolidated income statement and indicating the integrated economic result of the income and charges that are directly recognised in shareholders’ equity pursuant to the IFRS;
- the Consolidated cash flow statement being prepared according to the “indirect method”, adjusting the result (pre-tax profit/loss) of the year of the non-monetary components; and

- the consolidated Statement of changes in equity showing the total income (charges) of the year, transactions with Shareholders and the other changes in shareholders' equity.

This layout best reflects the elements that led to the Group's economic result of the year, in addition to its financial and capital structure.

The Consolidated Financial Statements were drawn up applying the historical cost method, taking into account the value adjustments, where appropriate, with the exception of the items that according to the IFRS must be measured at fair value, as indicated in the valuation criteria and without prejudice to those cases where the IFRS provisions allow a different valuation criterion.

The Consolidated Financial Statements were prepared on a going concern basis since it is not believed that there are financial, operation or other type of ratios that might indicate critical issues regarding the Group's ability to meet its obligations in the foreseeable future, and more specifically in the next 12 months.

The description of the methods through which the Group manages its financial risks is contained in Note 8 below regarding "Management of financial risks".

Values of items in the Consolidated Financial Statements and relative Notes, considering their importance, are expressed in millions of Euro, unless indicated otherwise.

3) Consolidation principles

The Consolidated Financial Statements were prepared using financial statements for the year of the Company and its subsidiaries drafted in compliance with the IFRS. Please note that all Group companies close their financial years as at 31 December.

The companies included in consolidation as at 31 December 2017 and 31 December 2016 are detailed in Note 21 "Appendix", an essential part of the Consolidated Financial Statements. The same annex includes any change to the consolidation area that occurred in the year.

Please note that on 1 March 2017 Rai Way SpA (hereinafter "Rai Way") acquired full control of Sud Engineering Srl (hereinafter "Sud Engineering"), which operates in the broadcasting plant maintenance and installation sector. On 20 June 2017, the deed incorporating the company into Rai Way was stipulated. The merger became effective on 22 June 2017, with accounting and fiscal effects backdated to 1 March 2017.

Subsidiaries

An investor controls an investee when it is exposed, or has the right to take part, in the variability of the relative economic returns and can exercise its decision-making power on the subsidiary's relevant activities in order to influence those returns. Presence of control occurs each time facts and circumstances indicate a variation to one or more elements qualifying control.

The assets and liabilities, expenses and income of subsidiaries are fully included in the Consolidated Financial Statements from the date on which the Parent Company takes direct or indirect control (or through one or more subsidiaries) and until the date on which that control terminates. The book value of the investments is eliminated with the corresponding shareholders' equity fraction. The portions of shareholders' equity and total profit attributable to third parties are entered in the specific consolidated shareholders' equity and total Consolidated income statement items.

For shareholdings acquired after control is assumed (purchase of third-party equity interests), any positive difference between purchase cost and the corresponding fraction of shareholders' equity acquired is entered in the Group's shareholders' equity. Similarly, effects resulting from the sale of minority shares without loss of control are entered in shareholders' equity.

Diversely, the sale of shares involving loss of control is entered in the Income statement:
- of any capital gain/loss calculated as the difference between the consideration received and the corresponding fraction of the consolidated shareholders' equity sold;
- of the effect of the revaluation of any residual equity investments kept to align it with the relevant fair value;
- of any values entered in the other components of the total profit/(loss) related to the former subsidiary for which a turnaround to the Income statement is foreseen, or when the turnaround to the Income statement is not foreseen to profits (losses) carried forward.

The value of any equity investment retained, aligned with its fair value at the date control was lost, is the new book value of the equity investment; thus the value of reference for the subsequent valuation of Equity investments according to the applicable valuation criteria.

Business combinations

Business combination transactions are entered in compliance with IFRS 3 "Business combinations", applying the so-called acquisition method. The combination consideration is calculated at the date control is assumed and is the fair value of assets transferred, liabilities sustained, and of any capital instrument issued by the purchaser. The potential consideration is entered at fair value at the acquisition date. The subsequent fair value changes to the potential consideration, or if the amount and allocation depend on future events, classified as a financial instrument in compliance with IAS 39 "Financial instruments: recognition and valuation", are entered in the Income statement or shareholders' equity as part other components of the total profit/(loss). Potential considerations that do not come under application of IAS 39 are valued based on the specific IFRS/IAS of reference. Potential considerations classified as capital instrument are not remeasured; so, consequently, regulation is accounted for under shareholders' equity. Costs attributable directly to the transactions are entered in the Consolidated income statement, when sustained.

On the date control is acquired, the shareholders' equity of the investee company is calculated attributing their fair value at the acquisition data to the single equity asset and liability (including contingent liabilities) elements identifiable, except where IFRS 3 establishes otherwise. Any residual difference compared to purchase cost, if positive, is entered under "Intangible Assets" as goodwill; if negative, it is entered in the Income statement as period income.

If full control is not acquired, the shareholders' equity portion of the third-party equity interest is calculated based on the effective portion of the current values attributed to the assets and liabilities at the control assumption date, excluding any goodwill attributable to them (so-called partial goodwill method); alternatively, the entire amount of goodwill generated by the acquisition is entered thus also considering the portion attributable to third party equity interest (so-called full goodwill method in this latter case, the third party equity interest is expressed at its fair value. The choice of how to calculate the goodwill (partial goodwill method or full goodwill method) is applied selectively for each business combination transaction.

If control is assumed by subsequent steps, the purchase cost is calculated summing the fair value of the equity previously held in the entity acquired and the amount paid for the further share. Any difference between the fair value of the equity previously held and the relative entry value is attributed to the Income statement. When control is assumed, any amounts previously entered in other total profit components are attributed to the Income statement or to another shareholders' equity item, if reclassification to the Income statement is not foreseen.

When calculation of assets and liabilities is performed provisionally, it must be concluded within 12 months of the acquisition date; considering solely information related to facts and circumstances existing at the acquisition date. In the financial year when the above-mentioned calculation is finalised, values entered provisionally are backdated.

Interest in agreements and joint control

Joint control only exists when, on a contractual basis, for decisions related to the agreement's important activities, the unanimous consent of all parties sharing control is required. Joint control agreements can be divided into two categories:

- joint ventures, that is joint control agreements where parties holding joint control claim rights to the agreement's net assets; and
- joint operations, that is joint control agreements where parties have rights to assets and obligations related to agreement liabilities.

Investments in joint ventures are measured applying the Equity method, as described in Note 4 "Measurement criteria"; whereas joint operations are measured recognising, line by line in the Consolidated Financial Statements, the asset/liability and revenue/costs portions based on effective rights and obligations resulting from contractual agreements.

Equity investments in associated companies

An associate company is one in which the Group exercises a considerable influence, intended as the power to take part over deciding financial and management choices without having control or joint control. Equity investments in associated companies are recognised under the equity method as indicated in Note 4 "Measurement criteria".

Infra-group transactions

The profits from transactions between consolidated companies are eliminated as are the receivables, payables, income and expenses, guarantees, commitments and risks between consolidated companies. Profits not earned with companies measured applying the Equity method are eliminated for the Group's share. In both cases, infra-group losses are not eliminated when the represent an effective lesser value of the asset transferred.

Conversion of financial statements with currency that is not the Euro

The financial statements of companies operating in non-Euro areas, as the Euro is the Group currency, and the functional currency of the Parent Company and its subsidiaries except for Rai Corporation (in liquidation) (hereinafter "Rai Corporation"), are converted into Euro applying the exchange rates of the date the financial year is closed to equity assets and liabilities, historical exchange rates to Equity items and average exchange rates of the year to Income statement items.

The exchange rate differences from conversion of financial statements of the companies operating in non-Euro areas, resulting from application of the different rates for assets and liabilities, for consolidated shareholders' equity and Consolidated income statement, are entered under the Equity item "Other reserves" as reserve for exchange rate differences from conversion for the Group part and, if needed, under the item "Shareholders' equity attributable to minority interests" for that of third parties. The exchange rate difference reserve is recognised in the Consolidated income statement when the investee is no longer a subsidiary. In those circumstances, the reserve is recognised in the Consolidated income statement under the items "Financial income" or "Financial expenses". With partial disposal, without losing control, the exchange rate difference related to the equity portion disposed of is attributed to equity interests attributable to third parties. If the investee should no longer be controlled and it should be qualified as a joint venture or associate, the conversion reserve is incorporated into the measurement applying the Equity method.

Financial statements used for the conversion of Rai Corporation are those expressed in US Dollars (USD).

4) Valuation criteria

The most important accounting standards and valuation criteria used for drawing up the Consolidated Financial Statements are briefly described below.

Current assets

Inventory. The final inventory of technical materials are recognised at purchase cost, calculated using the weighted average cost formula, adjusted in connection with market performance and the estimated non-uses tied to obsolescence and slow turnaround phenomena. The final inventory of goods (magazines and books and home videos) to be resold is recognised at purchase cost, calculated using the weighted average cost formula, or at presumed collection value resulting from market performance, if lower.
Work in progress to order, typically related to adjustment of the transmission and broadcasting network, are measured based on costs sustained related to work progress, calculated applying the cost to cost method.

Trade receivables - Other current receivables and assets - Current financial assets. Trade receivables, other current receivables and assets and the current financial assets are initially recognised at fair value, adjusted with directly attributable transaction costs and afterwards measured with amortised cost criteria based on the effective interest rate method (i.e. the rate that makes the current value of the expected cash flows and book value equal at the time of initial recognition), adjusted to take any write-downs into account by recognising a provision for write-downs. Trade receivables and other financial assets are included in current assets, except for those with contractual expiration longer than 12 months from the reporting date, which are classified in the non-current assets.

Impairment of financial assets. All financial assets other than those measured at fair value with balancing entry in the Income statement are analysed at each reporting date in order to verify whether there is objective proof that an asset or group of financial assets has been impaired. An impairment is recognised only if this evidence arises as a consequence of one or more events occurring after its initial recognition, which have an impact on the expected future cash flows of the asset.

Objective evidence of an impairment includes observable indicators such as:
- significant financial difficulty of the issuer or debtor;
- an infringement of the contract, such as a non-fulfilment or non-payment of interest or capital;
- evidence that the debtor might enter into an arrangement with creditors or another form of financial reorganisation;
- a sizeable decrease in estimated future cash flows.

The losses expected to arise from future events are not recognised.

For those financial assets recognised with depreciated cost criteria, when an impairment has been identified, the value is measured as the difference between the book value of the asset and the current value of the expected future cash flows, discounted based on the original effective interest rate. This value is recognised to the Consolidated income statement.

If the amount of an impairment of an asset recognised in the past decreases, and the decrease can be objectively connected with an event that occurred after recognition of the impairment, it is charged back to the Consolidated income statement.

Derecognition of financial assets and liabilities. Financial assets are derecognised when one of the following conditions is met:
- the contractual right to receive the cash flows from the asset has expired;
- the Group has basically assigned all risks and benefits connected with the asset, transferring its rights to receive cash flows from the asset or taking on a contractual obligation to pay the cash flows received to one or more beneficiaries by virtue of a contract that observes the requirements set out in IAS 39 (so-called "pass through test");
- the Group has neither assigned nor basically retained all the risks and benefits connected with the financial asset, but has transferred control.

In the case of factoring transactions basically involving transfer of the risks and benefits connected with the receivables assigned to the factor (therefore the Group remains exposed to the risk of insolvency and/or delayed payment – so-called non-recourse factoring), the transaction is assimilated to the opening of a loan secured by the credit being assigned. In this circumstance, the assigned credit is still represented in the consolidated Financial Position of the Group until the factor collects it and, as a balancing entry of the advance, if any, obtained by the factor, a financial payable is recognised. The financial cost for the factoring transactions is represented by interest on the pre-paid amounts recognised to the Income statement on an accrual basis, which are classified amongst the financial expenses. Commissions accruing on assignments are included amongst the financial expenses.

The financial liabilities are derecognised when they are extinguished, meaning when the contractual obligation is fulfilled, cancelled or barred.

Offsetting financial assets and liabilities. The Group offsets financial assets and liabilities if and only if:
- there is a legally exercisable right to offset the amounts recognised; and
- there is the intention to either offset on a net basis or to realise the asset and adjust the liability at the same time.

Cash and cash equivalents. Cash and cash equivalents comprise cash, demand deposits and financial assets with maturity originally equal to or less than three months, readily convertible into case and subject to a negligible risk of change in value. The elements included in cash and cash equivalents are measured at fair value.

Collection operations are recorded by bank transaction date; the order date is also taken into account for payment transactions.

Non-current assets

Property, plant and equipment. Property, plant and equipment are recognised according to the cost criteria and are entered at their purchase price or at cost of production including all directly allocated accessory charges necessary to make the assets ready for use. When there are current obligations for dismantling, removal of the asset and restoration of the sites, the book value includes the estimated (discounted) costs to bear at the time the facilities are abandoned, recognised as balancing entries to a specific provision (the accounting treatment of the estimate adjustments of these costs, of the passing of time and of the discount rate is indicated in Note 15.3 "Provisions for non-current risks and charges"). Property, plant and equipment cannot be revalued, not even when applying specific laws.

Costs for improvements, modernisation and transformation that increase the property, plant and equipment are recognised to assets when it is probable that they increase the future economic benefits expected from the use or sale of the asset.

The property, plant and equipment are systematically depreciated on a straight-line basis along their technical economic useful life, meant as the estimate of the period in which the company will use the asset. This period commences from the month when use of the asset begins, or could have begun. When the property, plant and equipment consists of multiple significant components have different useful lives, depreciation is made for each component. The value to depreciate is represented by the book value reduced by the estimated net exit value at the end of its useful life. Land, even if purchased together with a building, works of art and property, plant and equipment held for sale are not subject to depreciation. Any changes to the depreciation plan arising from revision of the useful life of the property, plant and equipment, the residual value or the methods for obtaining economic benefits of the asset are recognised prospectively.

The estimated useful life of the main property, plant and equipment is the following:

	Useful life in years	
	Min	Max
Buildings	10	50
Plant and machinery	2	12
Fixtures and fittings, tools and other equipment	5	7
Other assets	4	9

The routine maintenance and repair costs are recognised to the Consolidated income statement in the year in which they are incurred.

Intangible assets. Intangible assets concern the identifiable assets without physical consistency, controlled by the Group and able to generate future economic benefits, as well as the goodwill when acquired against payment. Identifiability is defined with reference to the possibility to distinguish the intangible asset acquired from goodwill. This requirement is normally met when:

- the intangible asset can be traced back to a legal or contractual right; or
- the asset is separable, meaning it can be assigned, transferred, rented or traded autonomously or as an integral part of other assets.

The Group's control consists in the right to enjoy future economic benefits arising from the asset and in the possibility to limit its access to others.

Intangible assets are recognised at purchase or production cost, including directly allocated accessory charges necessary to make the assets ready for use. Revaluations cannot be made, not even when applying specific laws.

The intangible assets having a defined useful life are systematically amortised during their useful life meant as the estimate of the period in which the assets will be used by the Group, and are broken down into:

a) Programmes – Audiovisual Works: the costs for acquiring and producing TV programmes, of audiovisual, cinema and multimedia works, made up of the external costs directly allocated to each production and the costs of the internal resources used to make single programmes, are represented according to the following criteria:

1) the costs referring to television productions with usefulness exceeding 12 months are capitalised amongst the intangible assets and, if these productions are ready for use at year-end, are amortised on a straight-line basis, starting from the month they are ready or the right becomes available with regard to the duration of their estimated future usefulness. If, on the other hand, these productions with repeated usefulness are not yet usable at year-end or rights become available in the future, their costs are deferred as assets under construction and payments on account.

   Taking into account the objective difficulties in identifying elements able to guarantee a correct correlation between revenue from advertising and licence fees and the amortisation of the rights, to which the indeterminableness of the varied methods of exploitation is added, the useful life of the programmes and audiovisual works with repeated usefulness is shown in the following table:

	Useful life in years
TV series and cartoons	3
Rights other than Free Tv related to films and series acquired by Rai Cinema	3
Exploitation of football library rights	4
Free Tv rights related to films and series acquired by Rai Cinema	5
"Full rights", i.e. products for which Rai Cinema has purchased the full chain of rights (film, television, home video, etc.)	7

The costs referring to rights under concession for shorter durations are amortised on a straight-line basis corresponding to the period of availability. Should the rights have depleted the contractually available passages, the residual value is fully expensed.

2) The costs referring to television productions intended for immediate use are posted to the Income statement in a single year, which usually coincides with that of use or the start of the concession. More specifically:
   - *News reporting, light entertainment, documentaries, classical music, prose and the entire radio production*. The costs are recognised during the year in which they are incurred, which usually coincides with the one in which they are broadcast.
   - *Sports events*. The costs are recognised in the year in which the event takes place.

b) Software licences are amortised over three years beginning from the month in which they are available for use, usually coinciding with the month when they become operational.

c) Trademarks are amortised over ten financial years beginning from when they become available for use, generally corresponding with the year in which use begins.

Goodwill and other intangible assets having an indefinite useful life are not amortised; the recoverability of their book value is checked at least once a year and in any case whenever events that lead to an assumption of impairment occur.

Impairment of non-financial assets. The non-financial assets are analysed on every reporting date in order to check whether there are indicators of any impairment. When events that lead to an assumption of impairment of the non-financial asset occur, their recoverability is checked by comparing the book value with the relevant recoverable value represented by the fair value net of disposal charges or the value in use, whichever is greater. The value in use is calculated based on reasonable and demonstrable assumptions representing the best estimate of future economic conditions that will occur in the residual useful life of the asset, giving importance to the information coming from the outside. When reasons for the write-downs made cease to exist, the value of the asset is restored and the adjustment is recognised to the Income statement as a revaluation (reversing an impairment loss). The impairment loss is reversed at the recoverable value or the book value before the impairment previously made and reduced by the amortisation quotas that would have been allocated if the impairment had not been made, whichever is the least.

Real estate investments. Real estate investments include properties owned by the Group through which to earn rents and/or for appreciation of capital invested and are entered in accounts applying the same rules illustrated in the paragraph on "Property, plant and equipment".

Real estate investments are eliminated from accounts when they are sold or are written-down when no future economic benefit is expected through their use of disposal. Any profit or loss, calculated as the difference between net consideration resulting from disposal and the net book value of assets eliminated and entered in the Consolidated income statement.

When events occurring lead to an assumption of impairment of the real estate investments, their recoverability is checked by comparing the book value with the relevant recoverable value, represented by the fair value net of disposal charges or the value in use, whichever is greater.

Useful life is considered as 33 years.

Public funding. Public funding, including the non-monetary contributions measured at fair value, is recognised when there is reasonable certainty that it will be received and that the Group will satisfy all the conditions established for its disbursement.

The benefit of a public loan at an interest rate lower than the market rate is treated as public funding. The loan is initially recognised at fair value and the public funding is measured as the difference between the initial book value and the funding received. The loan is afterwards measured in compliance with the provisions established for financial liabilities.

Public contributions to the year are presented as a positive component in the Consolidated income statement, under the item Other revenue and income.

Public funding received for the purchase, construction or acquisition of fixed assets (tangible or intangible) is recognised to directly reduce the relevant purchase or production cost or is recognised as income in connection with the relevant useful life, based on the amortisation process of the assets subsidised.

Financial assets (current and non-current). Equity investments in joint ventures and in associated companies are carried as Equity.

On applying the equity method, the equity investments are initially recognised at purchase cost with any difference between the incurred cost and the interest in the fair value of the identifiable net assets of the investee attributed in a way similar to what is set out in IFRS 3 "Business combinations". The book value is then adjusted to take into account:

- the Shareholder's portion of the economic results of the investee made following the date of acquisition; and
- the Shareholder's portion of the other Statement of comprehensive income components of the investee.

The changes in shareholders' equity of an investee other than those specified above are recognised to the Consolidated income statement when they represent, in substance, the effects of a transfer of a shareholding in the investee. The dividends that the investee distributes are recognised to reduce the book value of the equity investment. To apply the Equity method, adjustments foreseen for the consolidation process are considered (please see Note 3 "Consolidation principles").

When there is objective evidence of impairment, the recoverability is checked by comparing the book value with the relevant recoverable value calculated adopting the criteria indicated in the section "Impairment of non-financial assets". When the reasons for the write-downs cease to exist, the value of the equity investments is restored within the limits of the write-downs made with the effect recognised to the Consolidated income statement.

The transfer of shareholdings entailing loss of joint control or significant influence over the investee causes the following to be recognised to the consolidated Income Statement:

- any capital gain/loss calculated as the difference between the consideration received and the corresponding fraction of the book value of the transferred equity investment;
- the effect of the revaluation of any residual equity investments kept to align it with the relevant fair value;
- any amounts recognised in the other Statement of comprehensive income components relating to the investee for which reclassification to the Consolidated income statement is required.

The value of any equity investment retained, aligned with its fair value at the date joint control or significant influence was lost, is the new book value and therefore the value of reference for the subsequent valuation according to the applicable valuation criteria.

After an equity investment measured with the equity method, or a share of that investment, is classified as held for sale in so far as it meets the criteria set for that classification, the investment or share of the investment is no longer measured with the equity method. Any shares of that equity investment not classified as held for sale are measured with the equity method until the sale of the share of investment classified as held for sale is completed. Any residual share kept after the sale is measured based on the applicable valuation criteria.

The other equity investments recognised as non-current assets are measured at fair value with their effect recognised in the shareholders' equity reserve pertaining to the other Statement of Comprehensive Income components; the fair value changes recognised in the Consolidated shareholders' equity are attributed to the Consolidated income statement at the time of write-down or realisation. When the equity investments are not listed in a regulated market and the fair value cannot be reliably determined, they are recognised at cost adjusted for impairment; the impairments are not subject to reversal.

The Shareholder's portion of any losses of the investee exceeding the book value of the equity investment is recognised in a special provision to the extent in which the shareholder is committed to fulfilling legal or implicit obligations of the investee, or in any case to covering its losses.

The receivables and financial assets held to maturity are recognised at cost represented by the fair value of the initial consideration, increased by any transaction costs. The initial book value is afterwards

adjusted to take into account capital repayments, any write-downs and the amortisation of the difference between the repayment value and the initial book value; amortisation is made based on the effective interest rate (so-called amortised cost criterion).

When there is objective evidence of impairment, the write-down is determined by comparing the relevant book value with the actual value of the expected cash flows discounted at the effective interest rate defined at the time of initial recognition. The receivables and financial assets to hold to maturity are shown net of the relevant provision for write-downs.

Current and non-current liabilities

Financial liabilities - Trade payables - Other payables and liabilities. Loans and trade payables are recognised when the Group becomes part of the relevant contractual clauses and they are initially measured at fair value, adjusted by the directly attributable transaction costs.

They are afterwards measured with the amortised cost criterion, using the effective interest rate method.

Provisions for risks and charges. The provisions for risks and charges concern costs and charges fixed in nature and of certain or likely existence that could not be determined in amount and/or date of occurrence as at the reporting date. The allocations to these provisions are recognised when:

- the existence of a current, legal or implicit obligation arising from a past event is likely;
- fulfilment of the obligation being against payment is likely;
- the amount of the obligation can be reliably estimated.

The provisions are recognised at the representative value of the best estimate of the amount that the company would reasonably pay to settle the obligation or to transfer it to third parties as at the reporting date. When the financial effect of the passing of time is significant and the payment dates of the obligation can be reliably estimated, the provision is calculated by discounting the expected cash flows determined taking into account risks associated with the obligation. The increase in the provision connected with the passing of time is recognised to the Income statement under the items "Financial income" or "Financial expense".

The costs that the company expects to bear to implement renovation programmes are recognised in the year in which the programme is formally defined and the sound expectation that the renovation will take place is generated in the interested parties.

The provisions are periodically updated to reflect the changes in the estimates of costs, execution time and the discount rate; the estimate revisions are charged to the same Income statement item that previously contained the provision. The provisions for risks and charges are subject to discounting if it is possible to reasonably estimate the time the monetary outflows occurred. When the liability regards property, plant and equipment (e.g. dismantling and restoration of sites), the changes in provision estimate are recognised as a balancing entry for the asset to which they refer within the limits of the book values; any surplus is recognised to the Income statement.

If it is expected that all the expenses (or a part of them) required to settle an obligation are repaid by third parties, the indemnity – when it is virtually certain – is recognised as a separate asset.

For contracts whose non-discretionary costs necessary for fulfilling the obligations undertaken are greater than the economic benefits expected to be obtainable from the contract (onerous contracts), the Group recognises a provision equal to the cost necessary for the fulfilment and any compensation or sanction arising from non-fulfilment of the contract, whichever is the lesser.

The existence of contingent liabilities, represented by possible but not probable obligations arising from past events whose existence will be confirmed only when one or more uncertain future events not totally under the company's control occur, or not occur, will not give rise to the recognition of liabilities recorded in the financial statements, but is explained in a specific note contained in the Consolidated Financial Statements.

Employee benefits. Taking into account their characteristics, benefits following employment are either "defined-contribution" plans or "defined-benefit" plans. In the defined-contribution plans, the company's obligation – limited to paying contributions to the State, to an estate or to a legally distinct entity – is determined based on the contributions due. The costs relating to these plans are recognised to the Income statement based on the contribution made during the period. In the defined-benefit plans, on the other hand, the company's obligation is determined, separately for each plan, based on actuarial assumptions by estimating (in compliance with the projected unit credit method) the amount of the future benefits that the employees have accrued as at the date of reference. More specifically, the current value of the defined-benefits plans is calculated using a rate determined based on market performance as at the reporting date of the bonds of primary companies or, if there is no active market in which they are traded, government bonds. The liability is recognised on an accrual basis during the period the right accrues. The liability is measured by independent actuaries. If the assets servicing the plan exceed the current value of the relevant liability, the surplus is recognised as assets.
Net interest includes the return on assets servicing the plan and of the interest cost to recognised to the Income statement. Net interest is determined by applying the discount rate defined for the liabilities to the liabilities, net of any assets servicing the plan; Net interest of defined-benefits plans is recognised to the Income statement as "Financial income" or "Financial expenses".

The actuarial gains and losses arising from the actuarial assessment of the defined-benefits plans and the return on assets servicing the plan (net of their interest income) are recognised as other components of the consolidated Statement of comprehensive income. The actuarial gains and losses for the other long-term benefits are recognised to the Consolidated income statement. If a defined-benefits plan is changed, or if a new plan is introduced, the pension cost, if any, related to past service is recognised to the Consolidated income statement.

Derivative instruments. A derivative is a financial instrument or another contract:
- whose value changes depending on the changes in an underlying parameter, such as interest rate, price of a note or goods, exchange rate in foreign currency, index of prices or rates, rating of a receivable or another variable;
- that requires a net initial investment equal to zero or less than what would be required for contracts with a response similar to the changes in market conditions;
- that is settled at a future date.

The derivative instruments are classified as financial assets or liabilities, depending on their positive or negative fair value, and are classified as "held for trading" and measured at the fair value recognised to the Consolidated income statement, except for those designated as effective hedging instruments.

Derivatives are designated as hedging instruments when the ratio between the derivative and the hedged item is formally documented and the hedging effectiveness (periodically checked) is high. when the derivatives cover the risk of change in the cash flows of the hedge instruments (cash flow hedge); hedging of the variability of the cash flows of assets/liabilities due to fluctuations in exchange rates, the changes in fair value of the derivatives considered effective are initially recognised in the shareholders' equity reserve pertaining to the other consolidated Statement of comprehensive income components and afterwards charged to the Consolidated income statement consistently with the economic effects generated by the hedged transaction. The changes in the fair value of the derivatives that do not meet the conditions for being qualified as hedging are recognised to the Consolidated income statement.

Fair value measurement

Measurements at fair value and their disclosure are made or prepared by applying IFRS 13 "Fair value measurement". The fair value is the price that one would receive for the sale of an asset or that one would pay for the transfer of a liability in an ordinary transaction initiated between market operators as at the valuation date.

Fair value measurement is based on the assumption that the transaction to sell the asset or to transfer the liability takes place in the main market, i.e. in the market in which the greater volume and level of transactions for the asset or liability takes place. Without a main market, one assumes that the transaction takes place in the most advantageous market to which the Group has access, that is the market susceptible to maximising the results of the transactions to sell the asset or to minimising the amount to pay to transfer the liability.

The fair value of an asset or a liability is calculated considering the assumptions that the market participants would use to define the price of the asset or liability, on the assumption that they act according to their best economic interest. The market participants are informed independent buyers and sellers able to enter into a transaction for the asset or liability and motivated, but neither obliged nor induced, to make the transaction.

When measuring fair value, the Group considers the characteristics of specific assets and liabilities; in particular for the non-financial assets, the ability of a market operator to generate economic benefits by using the asset to its maximum and best use or selling it to another market operator able to use it to its maximum and best use. The fair value of the assets and liabilities is measured using techniques adequate for the circumstances and for which sufficient data are available, maximising the use of observable input.

Revenues and costs

Revenues are recognised to the extent by which the Group received economic benefits and are determined reliably; revenues from the supplies of services are recognised when the supply has been completed, while revenues from sales are recognised when the typical risks and benefits of the ownership of the sold goods have been actually transferred.

As regards the most important services for the Group, revenues are recognised:
- for the licence fee income in connection with the payment made to the State, mainly by debit in the electricity bill for the ordinary fees or to Rai for the special fees, regarding the amount pertaining to the period (the amounts paid in advance, before the accrual period, are not included); also included are payments made in the period for licence fees referring to previous financial years and licence fees relating to exemptions granted to certain user categories;
- for advertising income with the broadcast of the advertisement.

The allocations of revenues relating to partially supplied services are recognised for the amount accrued, provided that it is possible to reliably determine its stage of completion and that there are no significant uncertainties on the amount or on the existence of the revenue and its costs; otherwise they are recognised within the limits of the recoverable sustained costs.

Revenues are recognised for the fair value amount of the consideration received or receivable, net of returns, discounts, allowances and premiums, and of directly associated taxes.

Costs are recognised on an accrual basis when they concern services and goods purchased or consumed during the year or by systematic breakdown, or when their future usefulness cannot be identified.

Operating lease rentals are charged to the Consolidated income statement along the duration of the contract.

Financial income and expenses are recognised to the Consolidated income statement during the year in which they accrued.

Exchange rate differences

Revenues and costs relating to transactions in a currency that is not the functional one are recorded at the current exchange rate of the day on which the transaction is recognised.

Monetary assets and liabilities in a currency other than the functional one are converted into the functional currency applying the current exchange rate as at the reporting date of the Consolidated Financial Statements with the effect charged to the Consolidated income statement. Monetary assets and liabilities stated in a currency other than the functional one recognised at cost are recorded at the initial recognition exchange rate; when the measurement is made at fair value or at the recoverable or realisable value, the current exchange rate as at the date said value is determined is adopted.

Dividends

Dividends are recognised as at the date the General Meeting that establishes the right to receive payment passes the resolution except for when it is reasonably certain that the shares will be sold before the coupon date.

The dividends resolved by the Annual Shareholders' Meeting are represented as a change in consolidated shareholders' equity in the year in which they are approved.

Income tax

Current taxes recorded as Current income tax payables net of paid advances or in the item Current income tax receivables when the net balance is a credit are determined based on the estimated taxable income and in compliance with tax legislation. Specifically, these payables and receivables are calculated apply the tax rates in force as at the reporting date.

Current taxes are recognised in the Consolidated income statement, except for those concerning items directly chargeable to the consolidated shareholders' equity.

Deferred income tax assets and liabilities are calculated on the temporary differences between the asset values recognised and the matching values recognised for tax purposes, apply the rate in force as at the date on which the temporary difference will paid, based on the rates expected as at the reporting date. A deferred tax liability is recorded for all taxable temporary differences, except for goodwill. Deferred tax assets on the temporary differences, tax losses and tax credits not used are recognised if and when their recovery is likely in expectation that they might realise positive taxable amounts for Rai and the Group in future tax periods. A new assessment on whether or not the deferred taxes can be recognised is conducted on every reporting date.
Deferred income tax assets and liabilities are recognised in the Consolidated income statement, except for those concerning items directly chargeable to the consolidated shareholders' equity.

As a result of applying regulations referring to the same tax authority, the deferred income tax assets and liabilities are offset if there is a legally exercisable right to offset the current tax assets with the current tax liabilities that will be generated at the time of their payment.

Deferred tax assets and deferred tax liabilities are classified under non-current assets and liabilities and are offset at the single tax jurisdiction level if referring to offsettable taxes. If receivable, the offsetting balance is recognised in the item "Deferred tax assets"; if payable, in the item "Deferred tax liabilities".

Related parties

Related parties are those that share the same Parent Company with Rai, the companies that control it directly or indirectly, are subsidiaries, or are subject to joint control of the Parent Company and those in which it holds an equity investment such as to be able to exercise considerable influence. The definition related parties also includes bodies managing the benefit plans after the working relationship has ended, solely for Company and Group employees (specifically indicated in Note 18.4 "Transactions with related parties") and key managers. Key managers are those who have the direct or indirect power and responsibility for planning, management and control of Rai activities, and of its subsidiaries, including Directors.

In compliance with what is regulated by IAS 24 "Related party disclosures", paragraph 26, Rai is exempted from the disclosure requirements under paragraph 18 (according to which the Company must indicate the type of relationship with the related party, in addition to providing information on said transactions and on the existing balances, including the commitments necessary for the users of the financial statements to comprehend the potential effects of this relationship on the Consolidated Financial Statements) in the case of relations with another entity that is a related party because the same government entity has control over both the entity drawing up the financial statements and another entity.

5) Use of estimates

Application of the IFRS for drawing up the Consolidated Financial Statements entails making accounting estimates that are often based on complex and/or subjective assessments and on past experience and assumptions considered reasonable and realistic in connection with the information known at the time of the estimate. The use of these estimates reflects on the book value of the assets and liabilities and on the disclosure concerning the contingent assets and liabilities as at the date of the Financial Statements, and on the amount of the revenues and costs in the accounting period represented. The actual results might differ from those estimated because of the uncertainty characterising the assumptions and conditions on which the estimates are based. The estimates and assumptions are periodically reviewed and the effects of every change are reflected in the Consolidated income statement.

For better understanding of the Consolidated Financial Statements, the most significant estimates of the process of drafting the Consolidated Financial Statements because they involve making considerable recourse to subjective opinions, assumptions and estimates related to themes uncertain owing to their nature are provided below. The changes in the conditions at the root of adopted opinions and assumptions might have a large impact on the subsequent results.

Write-downs

Assets are written down when events or circumstances arising after their initial recognition lead one to believe that this value is not recoverable. The decision of whether to proceed with its write-down and quantification depends on assessments made on the basis of reasonable and demonstrable assumptions representing the best estimate of the future economic conditions that will take place in the residual useful life of the asset while giving importance to the information coming from the outside.

The write-down is determined by comparing the book value with the relevant recoverable value represented by the fair value net of disposal charges or the value in use, whichever is greater. The latter is determined by the use of the asset net the disposal charges and quantified in light of the information available at the time of the estimate on the basis of subjective opinions on the trend of future variables (such as prices, costs, demand growth rates).

Recovery of deferred taxes

Deferred tax assets are recognised in the Consolidated Financial Statements, mainly connected with recognition of tax losses that can be used in subsequent tax periods and as deferred tax deductible income components, for an amount that is highly likely to be recovered in future years. Recoverability of the above-mentioned deferred taxes is subordinate to attaining future taxable profits that are large enough or up to the total amount of the deferred tax liabilities. Management is required to give important opinions in order to determine the amount of the deferred taxes that can be recognised based on the time frame and the amount of the future taxable income. If in the future the Group should be unable to recover all or part of the deferred taxes recorded in the consolidated financial statements, the relevant adjustment will be charged to the consolidated Income Statement.

Employee benefits

Some Group employees are registered with plans that disburse benefits after termination of employment (such as the Provision for Employee Severance Pay and the supplementary pension funds specified in Note 15.2 "Employee benefits"). Quantification of the costs and liabilities associated with these plans is based on estimates made by actuaries, who use a combination of statistical-actuarial factors, including statistical data relating to past years and forecasts of future costs. Mortality and withdrawal rates, assumptions on the future evolution of discount rates, remuneration growth rates, inflation rates and the analysis of the trending index of healthcare costs are also considered as estimate components. What normally occurs is that when the balance of these liabilities is periodically measured, there are differences arising from, among other things, changes in the actuarial assumptions use, the difference between actuarial assumptions previously adopted and those that actually took place, and the different return on assets servicing the plan compared to what was considered in the net interest calculation. The impacts of the new measurements are recognised in the consolidated Statement of Comprehensive Income for the defined-benefit plans and in the Consolidated income statement for the defined-contribution plans.

Litigation

The Groups is respondent in several disputes concerning administrative, civil, tax and labour law matters. The nature of these disputes makes the final outcome of the matters objectively unforeseeable. Provisions were therefore formed to cover all significant liabilities for the cases in which the lawyers (inside to the Group and third-party consultants used) deemed that the likelihood of an unfavourable outcome exists and it was possible to draw up a reasonable estimate of the charges arising from losing the cases.

Dismantling and restoration of sites

The Group recognised liabilities regarding the obligations to dismantle property, plant and equipment and to restore several areas under operating lease agreements at the end of the period they are used in. Estimating future dismantling and restoration costs is a complex process and requires common sense and judgement in assessing liabilities to sustain many years later, and they are often not fully defined by laws, regulations or contractual clauses. The critical nature of the estimates of dismantling and restoration charges also arises (i) from posting these charges whose current value is initially recorded to increase the cost of the asset to which they refer and as a balancing entry in the provision for risks; and (ii) from the complexity and subjectivity of the valuation process to perform upon initial recognition and to update at least once a year in order to determine the discount rate to use.

Fair value measurement of financial instruments

The fair value of the listed financial instruments is determined by observing the prices that can be taken directly from the market, while specific valuation techniques using the greatest possible number of inputs seen on the market are used for the unlisted financial instruments. In the circumstances in which this is not possible, management estimates the inputs while taking into account characteristics of the instruments being measured. Changes in the assumptions made in the estimate of the input data might have effects on the fair value recognised for these instruments.

6) Recently issued accounting principles

Accounting principles approved by the European Union but still not mandatorily applicable

- Accounting standard IFRS 15 "Revenue from contracts with customers" (hereinafter "IFRS 15") that requires revenue to be recognised based on the following five steps was approved with Regulation no. 2016/1905 issued by the European Commission on 22 September 2016:
  1. identification of the contract with the customer;
  2. identification of the performance obligations (i.e. the contractual commitments to transfer goods and/or services to the customer);
  3. determination of the transaction price;
  4. allocation of the transaction price to the performance obligations identified on the basis of the stand alone selling price of each good or service; and
  5. recognition of the revenue when the relevant performance obligation is met.
- The amendments to IFRS 15 were also approved with Regulation no. 2017/1987 issued by the European Commission on 31 October 2017. These amendments regard:
  – identification of the contractual obligations;
  – assignment of the role of principal or agent;
  – determination of the moment of recognition of the income arising from the granting of a licence.

The provisions of IFRS 15 and its amendments are effective starting from the years beginning on or after 1 January 2018. Early application of both is allowed.
The Group decided not to avail itself of the right to apply IFRS 15 and its amendments early, and estimated that their application will have an insignificant impact on the Consolidated shareholders' equity, net of the relative fiscal effect, as at 1 January 2018.

- Accounting standard IFRS 9 "Financial Instruments" (hereinafter "IFRS 9") was approved with Regulation no. 2016/2067 issued by the European Commission on 22 November 2016. Specifically, the new

standard reduces the number of categories of financial assets listed in IAS 39 and defines: (i) the methods for classifying and measuring financial assets; (ii) the financial instrument impairment methods; (iii) the methods for applying hedge accounting and (iv) the posting of the changes in credit worthiness in the fair value measurement of the liabilities. The provisions of IFRS 9 are effective starting from the years beginning on or after 1 January 2018. Early adoption is allowed.
The Group decided not to avail itself of the right to apply IFRS 9 early, and estimated that the principle will have an insignificant impact, net of the relevant tax effect, on consolidated shareholders' equity as at 1 January 2018 deriving mainly from measurement of the provision for write-downs.

- With Regulation no. 2017/1988 issued by the European Commission on 3 November 2017, the amendments to IFRS 4 "Joint application of IFRS 9 Financial instruments and IFRS 4 Insurance contracts" (hereinafter "amendments to IFRS 4") were approved. The amendments to IFRS 4 satisfy the critical issues arising from introduction of IFRS 9 while awaiting the principle that will replace the current IFRS 4. These amendments are effective starting from the years beginning on or after 1 January 2018. The Group estimated that the principle will have no impact on its Consolidated Financial Statements, since the cases it regulates are not applicable to the Group situation.

- International accounting standard IFRS 16 "Leasing" was approved with Regulation 2017/1986 issued by the European Commission on 31 October 2017. The standard defines the new leasing posting model while eliminating the distinction between operating and financial lease in the lessee's perspective.
  The provisions of IFRS 16 are effective starting from the years beginning on or after 1 January 2019. Its early adoption together with IFRS 15 is allowed.
  At present, the Group is analysing the standard and considering whether its adoption will have a significant impact on its consolidated financial statements, mainly arising from real estate lease agreements and leases for mobile assets.

- The "Annual Improvements to IFRS Standards 2014-2016 Cycle" containing amendments, basically technical and editorial in nature, of several international accounting standards was approved with Regulation no. 2018/182 issued by the European Commission on 7 February 2018. The amendments contained in the Annual Improvements to the IFRS Standards 2014-2016 Cycle are:
  - IFRS 1: the short-term exemptions provided for in paragraphs E3-E7 are eliminated because the reasons for their inclusion have ceased to exist. The amendment is effective starting from the years beginning on or after 1 January 2018;
  - IFRS 12: the purpose of the standard is clarified, specifying that the disclosure requirements, except for those provided for by paragraphs B10-B16, apply to the interests of an entity listed under paragraph 5 that are classified as held for sale, for distribution or as a discontinued operation pursuant to IFRS 5. The amendment is effective starting from the years beginning on or after 1 January 2017;
  - IAS 28: it is clarified that the decision to measure an investment in a subsidiary or in a joint venture held by a venture capital company at fair value with balancing entry recorded in the Income statement is possible for every investment in subsidiaries or joint ventures starting from their initial recognition. The amendment is effective starting from the years beginning on or after 1 January 2018.

The Group estimated that the above amendments will have no impact on its consolidated financial statements since the cases they regulate are not applicable to the Group situation.

Accounting principles not yet approved by the European Union

- On 20 June 2016 the IASB issued the amendments to IFRS 2: "Classification and Measurement of Share-based Payment Transactions". The amendments clarify the requirements and methods for recognising share-based payments. These amendments are effective starting from the years beginning on or after 1 January 2018.

- On 8 December 2016 the IASB issued IFRIC 22 "Foreign Currency Transactions and Advance Consideration". The interpretation deals with transactions in foreign currency in the case in which an entity recognises a non-monetary asset or liability coming from the payment or collection of an advance before the entity recognises the relevant asset, cost or revenue. What has been defined does not have to be applied to taxes or to insurance or reinsurance contracts. The IFRIC principle is effective starting from the years beginning on or after 1 January 2018.

- On 8 December 2016 the IASB issued the amendments to IAS 40: "Transfers of Investment Property". The amendments clarify the methods for changing classification from or to Real Estate Investments. These amendments are effective starting from the years beginning on or after 1 January 2018.

- IASB issued IFRS 17 "Insurance Contracts" on 18 May 2017. Based on the new standard, the entity must: (i) identify the insurance contracts; (ii) separate the incorporated derivative contracts, the distinct investment components and the distinct performance obligations from the insurance contracts; (iii) divide the contracts into groups so they can be recognised and measured; (iv) recognise the profit coming from a group of insurance contracts along the insurance coverage period and when it is released from the risk. If a group of contracts is or becomes a loss, the entity must immediately recognise the loss; (v) present the insurance revenue, expense for the insurance services and the inflow or expenses of the insurance sector; and (vi) provide information to allow the users of the financial statements to assess the effect that the contracts regulated by IFRS 17 have on the financial position, on financial performance and on the cash flows of an entity.
  The provisions of IFRS 17 are effective starting from the years beginning on or after 1 January 2021.

- IASB issued IFRIC 23 "Uncertainty over Income Tax Treatments" on 7 June 2017. IFRIC 23 specifies how to reflect the effects of uncertainty in posting income taxes if the tax treatment of a particular transaction or circumstance is unclear. The provisions of IFRIC 23 are effective starting from the years beginning on or after 1 January 2019.

- On 12 October 2017 the IASB issued the amendments to IAS 9: "Prepayments Features with Negative Compensation". These amendments allow entities to recognise several deferred financial assets at amortised cost with the so-called negative offset.
  These amendments are effective starting from the years beginning on or after 1 January 2019.

- IASB issued the amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" on 12 October 2017. The amendments clarify that a company applies IFRS 9 to the long-term interests in an associate or joint venture that are part of the net investment in the associate or joint venture. These amendments are effective starting from the years beginning on or after 1 January 2019.

- IASB issued the document "Annual Improvements to IFRS Standards 2015-2017 Cycle" on 12 December 2017. The amendments it contains are:

  - IFRS 3: the company remeasures the equity investment previously held in a joint operation when it obtains control of the business.
  - IFRS 11: a company does not remeasure the equity investment previously held in a joint operation when it obtains joint control of the business.
  - IAS 12: in the same way, a company takes into account all consequences of the income taxes arising from payment of dividends.
  - IAS 23: a company treats any loan previously subscribed to develop an asset when the asset is ready for its expected use or for sale as part of the general loans.

  The amendments indicated in the above-mentioned document are effective starting from the years beginning on or after 1 January 2019.

At present, the Group is analysing the principles specified and is assessing whether their adoption will have a significant impact on its Consolidated Financial Statements.

7) Information by operating segment

IFRS 8 "Operating Segments" identifies the "Operating Segment" as a component of an entity: (i) that carries out activities able to generate flows of revenue and autonomous costs; (ii) whose operational results are periodically reviewed at the highest operational decision-making level, which coincides with the Company's Board of Directors, with the purpose of taking decisions on allocation of the resources and assessing their results; and (iii) for which separate economic-financial information is prepared.

The Group has identified only one operating segment and the management information, prepared and periodically made available to the Parent Company's Board of Directors for the purposes referred to above, considers the activity carried out by the Group as an indistinct set; as a result, no information by operating segment is presented in the Consolidated Financial Statements. The information on the services carried out by the Group, the geographical area (which for the Group nearly corresponds entirely to the territory of the Italian State) where it carries out its activity and its major users are provided in the pertinent Notes to these Consolidated Financial Statements to which the reader is therefore referred.

8) Management of financial risks

The financial risks to which the Group is exposed are managed according to the approach and the procedures defined within a specific policy issued by the Parent Company and also applied to subsidiaries, except for Rai Way which, following listing, adopted its own policy; moreover the same as the Rai one. Those documents establish procedures, limits and tools for the monitoring and minimisation of financial risk; to preserve the corporate value of the Group and of entities belonging to it.

The main risks identified by the Group are:
- market risk arising from exposure to fluctuations of interest rates and exchange rates connected with the financial assets and liabilities respectively owned/originated and assumed;
- credit risk arising from the possibility that one or more counterparties might be insolvent;
- liquidity risk arising from the Group's inability to obtain the financial resources needed to meet short-term financial commitments.

8.1 Market risk

Market risk consists of the possibility that changes in the interest and exchange rates might negatively influence the value of the assets, liabilities or expected cash flows.

Interest rate risk

Interest rate risk originates from the possible increase in net financial expenses as a result of unfavourable changes in market rates on the variable rate financial positions. In order to limit this risk, corporate policy requires that the medium/long-term variable rate loans be converted to fixed rate for at least 50% by using derivative products, such as Interest Rate Swaps.

As at 31 December 2017, the medium/long term borrowings of the Parent company are all at fixed rates; therefore, the effects of the change in rates fall only on the short-term positions of a varying duration and sign during the year.

Please also note that on 20 April 2017 Rai stipulated four Interest Rate Swap Forward Start contracts for a total notional of €350 million with commencement date May 2020 and valid for the next 5 years. This transaction was implemented to cover the risk of increasing interest rates when the current bond issue expires with the resulting need to refinance.

Rai Way, in compliance with its financial policy, has two Interest Rate Swap contracts (IRS) as 50% hedging of the amortising credit line, for a residual notion amount of €60 million as at 31 December 2017.

The fair value of those transactions as at 31 December 2017 is suspended in a specific cash flow hedge reserve, with effect, net of the tax component, on total profit/(loss) for the year.

Sensitivity analysis

The table below shows a sensitivity analysis conducted on non-hedged financial positions and on the Interest Rate Swap contracts of Rai and Rai Way. In consideration of the level that the short-term position rates have already reached, a minimum level of applicable rates (zero) was considered, while a two-way shift of the rate curve of 50 b.p. was applied for Interest Rate Swaps, with the following effects:

(€/million)	Change to interest rate	Change in economic result before tax effect	Change to Cash Flow Hedge Reserve
Year ended 31 December 2017	+50 Bp.	1.0	9.0
	-50 Bp.	-	-9.0
Year ended 31 December 2016	+50 Bp.	-0.6	0.1
	-50 Bp.	-	-

Exchange rate risk

The Group exchange rate risk is mainly related to the exposure in USD, from the purchase of sports broadcasting rights by Rai and film and TV rights by Rai Cinema SpA (hereinafter "Rai Cinema"). During 2017, these commitments generated payments for about $180 million ($191 million in 2016). Further exposure currencies, with split disbursements and of a modest amount all in all, are the Swiss Franc and the British Sterling for a value of about €7 million.

As at 31 December 2017 hedging transactions were only active for Rai Cinema.

Exchange rate risk is managed starting from the date the trade commitment is signed, is often long-term and has as an objective protecting the value in Euro of the commitments, as estimated at the time of the order (or budget). The policy regulates their management in keeping with the international best practices, with the aim of minimising the risk. This is pursued through the active monitoring of exposure and the implementation of hedging strategies by Rai, also on behalf of the subsidiaries (except for Rai Way, which has an autonomous policy and management). The mandates for carrying out hedging transactions are given hierarchically and progressively, with a minimum intervention percentage of 50% of the contractual amount in foreign currency.

The hedging strategies are carried out through derivative instruments – such as forward purchases and optional structures – without taking on a financial speculation nature. To this end, using appropriate systems, effectiveness tests are conducted before and after, and they make it possible to identify, as better detailed in Note 16.2 "Current financial liabilities", the effective and ineffective amount of the hedge.

The breakdown of the assets and liabilities in currency other than the Euro is provided below:

(€/million)	**Year ended 31 December 2017**		Year ended 31 December 2016	
	USD	Other foreign currencies	USD	Other foreign currencies
Trade receivables	3.7	0.1	4.1	1.2
Trade payables	(18.5)	(1.9)	(41.4)	(1.5)
Cash on hand	1.6	0.1	0.7	0.1
Other non-current assets	-	0.1	0.1	0.1
Other current receivables and assets	0.1	-	0.1	-
Other current payables and liabilities	-	(0.1)	(0.1)	(0.1)

Sensitivity analysis

As for what is explained above, exposure to the exchange rate risk is significant only for the EUR/USD exchange rate. Therefore, a sensitivity analysis as at 31 December 2017 and as at 31 December 2016 was conducted on the non-hedged credit and debt positions, on the derivatives hedging commitments for contracts already signed and on available cash in foreign currency. A symmetrical change of 10% of the exchange rate compared to the value present as at the reporting date, all other conditions being equal, was simulated. The effects on the economic result, found in the following table, are determined by the debt positions not hedged by the exchange risk; whereas the cash flow hedge reserve includes the effective portion of hedged in force on commitments signed but with no equity reflections in the Consolidated Financial Statements which, limited to 2017 is only referred to Rai Cinema.

(€/million)	EUR/USD exchange rate	Exchange variation	Recalculated EUR/USD exchange rate	Change in Income statement (before taxes)	Change Cash flow hedge reserve
Year ended 31 December 2017	1.1993	-10%	1.0794	-0.1	0.3
		+10%	1.3192	0.2	-0.4
Year ended 31 December 2016	1.0541	-10%	0.9487	-1.3	1.5
		+10%	1.1595	1.3	-0.6

8.2 Credit risk

The theoretical exposure to credit risk for the Group mainly refers to the book value of the financial assets and trade receivables recognised in the Consolidated Financial Statements.

As for the counterparty risk, trade partner assessment procedures are adopted for managing trade receivables. The analysis is conducted periodically on the situation of the past due items and may lead to the dunning of the parties affected by solvency problems. The lists of the past due items analysed are arranged by amount and customer, updated to the analysis date and show those situations demanding greater attention.

The corporate structure of the single companies appointed to collect the credit initiates kindly reminder measures with the counterparts that are debtors of amounts relating to past-due items. If these activities do not result in collection of the sums, the structures start in agreement with the respective legal functions (warning letter, injunction, , etc.) actions to collect the credit after formally dunning the debtor parties. The allocations to the provision for write-downs are made specifically on the credit positions having peculiar risk elements.

The analysis of receivables by due date (before provision for write-downs) is provided below:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Invoices to be issued	**106.2**	**335.5**
Falling due	199.2	198.0
Expired from 0 to 90 days	64.3	63.4
Expired from 91 to 180 days	21.1	8.9
Expired over 180 days	45.0	78.3
Invoices issued	**329.6**	**348.6**
Total trade receivables	**435.8**	**684.1**

Credit risk on uses of funds is limited since corporate policy requires the use of low risk financial instruments and with counterparties having high ratings for the periods of cash surplus. Only time or demand deposits with bank counterparties having investment grade rating were used during 2017 and 2016.

8.3 Liquidity risk

On the strength of a centralised treasury agreement, with the sole exception of the subsidiary Rai Way which has its own resources, Rai manages financial resources through a cash-pooling system that involves daily transfer of the bank balances of the associates to the Parent Company current accounts, which grants the intercompany credit facilities necessary for the operations of these companies.

For medium/long term needs, the Group's financial structure is formed by a bond issue expiring in May 2020 for €350 million and by an amortising loan finally expiring in 2021, granted by the European Investments Bank (hereinafter "EIB") allocated to the digital terrestrial implementation project for €35 million, both for the Rai, plus a pool loan of €60 million, for Rai Way, expiring in 2019 (for further details, please refer to Note 15.1 "Non-current financial liabilities and current portions of non-current financial liabilities").

In consideration of the significant fluctuation of the infra-annual indebtedness connected with the periodic settlement of the licence fees by the Ministry of Economy and Finance, the Parent Company has uncommitted bank credit facilities for about €480 million and, since the month of January 2017, a five-year revolving line with a pool of banks totalling €270 million.

The new revolving line requires that the following Consolidated Financial Statements parametric/equity ratio be met and it was met in full (0.44) at the date of the financial statements:
- Net Financial Debt (adjusted by receivables from the State for licence fees)/shareholders' equity ≤1.7.

Rai Way has its own revolving line of €50 million not used as at 31 December 2017, expiring in 2019.

The cash situation is constantly monitored through a financial forecasting process that highlights any financial critical issues considerably in advance.

The following tables include the analysis by due date of the financial liabilities as at 31 December 2017 and 31 December 2016. Balances presented are the non-discounted contractual amounts. For the Rai Way IRS agreements as at 31 December 2017, flows present the interest difference estimated in the different periods. The various expiry periods are determined based on the period between the financial statements reference date and when the bonds expire.

(€/million)	Year ended 31 December 2017				Year ended 31 December 2016			
	< 1 year	1-5 years	>5 years	Total	< 1 year	1-5 years	>5 years	Total
Trade payables and other liabilities:								
Trade payables	660.1	-	-	**660.1**	686.2	-	-	**686.2**
Other payables and liabilities	441.9	1.7	0.3	**443.9**	347.5	3.3	0.3	**351.1**
Medium/long-term financial liabilities:								
Medium/long-term loans	41.4	56.6	-	**98.0**	41.9	97.9	0.1	**139.9**
Bonds	5.3	360.5	-	**365.8**	5.3	365.7	-	**371.0**
Short-term financial liabilities:								
Due to banks	-	-	-	-	160.1	-	-	**160.1**
Due to associates	-	-	-	-	0.1	-	-	**0.1**
Derivative instruments:								
Currency derivatives	0.5	-	-	**0.5**	-	-	-	-
Interest rate derivatives - non-discounted cash flows	-	-	-	-	0.1	-	-	**0.1**

9) Management of capital risk

The Group objectives when managing capital are inspired by preservation of the ability to continue guaranteeing optimum capital strength also through the ongoing improvement of operational and financial efficiency. The Group pursues the objective of retaining an adequate level of capitalisation that allows it to realise an economic return and to access external sources of funding. The Group constantly monitors the evolution of the indebtedness level related to shareholders' equity. Specifically, the ratio between equity and the total of comprehensive liabilities of the shareholders' equity is seen in the following table:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Shareholders' equity	480.1	476.6
Total liabilities shareholders' equity	2,766.1	3,012.6
Contents	17.4%	15.8%

The net financial position of the Group for the periods under review is shown in Note 21.2 "Net financial position".

10) Fair value measurement

The fair values of the financial instruments classified based on a hierarchy of levels reflecting the significance of the inputs used for determination (IFRS 13 "Fair value measurement") are provided below:

- Level 1: listed price (active market): the data used in the measurements are represented by prices listed on markets in which assets and liabilities identical to those being measured are traded;
- Level 2: use of parameters observable on the market (e.g. for the derivatives, the exchange rates recorded by the Bank of Italy, market rate curves, volatility provided by Reuters, credit spreads calculated on the basis of the credit default swaps, etc.) different from the Level 1 listed prices;
- Level 3: use of parameters not observable on the market (internal assumptions, for example, cash flows, spreads adjusted for risk, etc.).

The financial instruments at fair value recorded in the financial statements are made up of hedging derivatives measured with a financial model that uses the most popular and accepted market formulas (net current value for forward currency purchasing transactions and application of the Black-Scholes formula for the options), in addition to the following input data given by the provider Reuters: ECB spot exchange rates, Euribor and IRS rate curves, volatility and credit spreads of the various bank counterparties and, for Rai, of the securities issued by the Italian State. The fair value of the derivative instruments represents the net position between assets and liabilities related to hedged of monetary flows in USD which will appear after the financial statements' reference date. For more information on the derivative instruments (assets and liabilities), please refer to Notes 13.3 "Current financial assets" and 16.2 "Current financial liabilities".

(€/million)	**Year ended 31 December 2017**		
	Level 1	Level 2	Level 3
Derivatives on exchange rates	-	(0.5)	-
Derivatives on interest rates	-	1.2	-

(€/million)	Year ended 31 December 2016		
	Level 1	Level 2	Level 3
Derivatives on exchange rates	-	1.7	-
Derivatives on interest rates	-	(0.1)	-

11) Reconciliation between classes of financial assets and liabilities and types of financial assets and liabilities

To complete the information on financial risks, the reconciliation between classes of financial Assets and Liabilities and types of financial Assets and Liabilities identified base on IFRS 7 requirements is provided below:

Year ended 31 December 2017 (€/million)	Receivables and loans	Financial assets held for sale	Financial assets and liabilities at fair value with a balancing entry recognised to the Income statement	Hedging activity	Total financial assets and liabilities	Notes (**)
Assets						
Trade receivables (*)	391.6	-	-	-	391.6	12.7/13.2
Current financial assets	7.2	-	-	-	7.2	13.3
Cash and cash equivalents	228.0	-	-	-	228.0	13.6
Non-current financial assets	3.4	-	-	1.2	4.6	12.5
Total financial assets	**630.2**	**-**	**-**	**1.2**	**631.4**	
Liabilities						
Trade payables	(660.1)	-	-	-	(660.1)	16.1
Current financial liabilities	(0.2)	-	(0.5)	-	(0.7)	16.2
Current portion of medium/long-term loans	(40.1)	-	-	-	(40.1)	15.1/16.2
Non-current financial liabilities	(403.4)	-	-	-	(403.4)	15.1
Total financial liabilities	**(1,103.8)**	**-**	**(0.5)**	**-**	**(1,104.3)**	

(*) The item includes the value of the trade receivables allocated to Other non-current assets.
(**) The figures provided below indicate the paragraphs in the Notes in which the assets and liabilities shown are described in detail.

Year ended 31 December 2016 (€/million)	Receivables and loans	Financial assets held for sale	Financial assets and liabilities at fair value with a balancing entry recognised to the Income statement	Hedging activity	Total financial assets and liabilities	Notes (**)
Assets						
Trade receivables (*)	639.2	-	-	-	639.2	12.7/13.2
Current financial assets	5.7	-	1.0	0.7	7.4	13.3
Cash and cash equivalents	86.2	-	-	-	86.2	13.6
Non-current financial assets	0.2	-	-	-	0.2	12.5
Total financial assets	**731.3**	**-**	**1.0**	**0.7**	**733.0**	
Liabilities						
Trade payables	(686.2)	-	-	-	(686.2)	16.1
Current financial liabilities	(160.5)	-	-	-	(160.5)	16.2
Current portion of medium/long-term loans	(40.0)	-	-	-	(40.0)	15.1/16.2
Non-current financial liabilities	(442.6)	-	-	(0.1)	(442.7)	15.1
Total financial liabilities	**(1,329.3)**	**-**	**-**	**(0.1)**	**(1,329.4)**	

(*) The item includes the value of the trade receivables allocated to Other non-current assets
(**) The figures provided below indicate the paragraphs in the Notes in which the assets and liabilities shown are described in detail.

12.1 Property, plant and equipment

Property, plant and equipment, which amounted to €1,070.3 million (€1,082.5 million as at 31 December 2016), are broken down as follows:

(€/million)	Land	Buildings	Plant and machinery	Fixtures and fittings, tools and other equipment	Other assets	Assets under construction and payments on account	Total
Historical cost	381.8	580.6	2,101.2	94.4	116.7	50.8	3,325.5
Write-downs	-	-	(0.8)	-	-	-	(0.8)
Accumulated depreciation	-	(242.4)	(1,819.0)	(85.9)	(94.9)	-	(2,242.2)
Balance as at 31 December 2016	**381.8**	**338.2**	**281.4**	**8.5**	**21.8**	**50.8**	**1,082.5**
Increases and capitalisation [1]	0.3	6.0	30.4	2.1	4.5	48.4	91.7
Disposals [2]	-	(0.2)	(0.8)	-	-	(0.3)	(1.3)
Reclassifications [3]	-	2.3	27.6	1.5	3.0	(34.5)	(0.1)
Write-downs	-	-	-	-	-	-	-
Amortisation	-	(17.4)	(76.5)	(2.8)	(5.8)	-	(102.5)
Balance as at 31 December 2017	**382.1**	**328.9**	**262.1**	**9.3**	**23.5**	**64.4**	**1,070.3**
broken down as follows: [4]							
Historical cost	382.1	588.0	2,122.5	97.8	120.7	64.4	3,375.5
Write-downs	-	-	(0.3)	-	-	-	(0.3)
Accumulated depreciation	-	(259.1)	(1,860.1)	(88.5)	(97.2)	-	(2,304.9)
[1] of which, following the incorporation of Sud Engineering into Rai Way:							
Cost	0.2	1.0	0.1	0.2	0.1	-	1.6
Amortisation	-	-	-	(0.2)	(0.1)	-	(0.3)
	0.2	**1.0**	**0.1**	-	-	-	**1.3**
[2] of which:							
Cost	-	(0.4)	(36.5)	(0.4)	(3.7)	(0.3)	(41.3)
Write-downs	-	-	-	-	-	-	-
Amortisation	-	0.2	35.7	0.4	3.7	-	40.0
	-	**(0.2)**	**(0.8)**	-	-	**(0.3)**	**(1.3)**
[3] of which reclassification under the item real estate investments following the change to intended use of a building for 0.1 million and other minor reclassifications broken down as follows:							
Cost	-	(0.6)	(0.2)	-	0.1	-	(0.7)
Amortisation	-	0.5	0.2	-	(0.1)	-	0.6
		(0.1)	-	-	-	-	**(0.1)**
[4] net of use of the provision for write-downs for:							
Write-downs	-	-	0.5	-	-	-	0.5
Amortisation	-	-	(0.5)	-	-	-	(0.5)
	-	-	-	-	-	-	-

Investments, which amounted to €91.7 million (€74.5 million in 2016), fall within the scope of the modernisation and technological development initiatives that the Group initiated.

Write-downs concern plants and machinery and are to adjust the asset value for technological obsolescence.

The amount of the existing contractual commitments for the purchase of property, plant and machinery is specified in Note 18.2 "Commitments".

12.2 Real estate investments

Real estate investments amount to €4.7 million (€4.9 million as at 31 December 2016) and concern some property, owned by Rai Pubblicità SpA (hereinafter "Rai Pubblicità"), leased to third parties, for which rent is received totalling €1.9 million in the year closed as at 31 December 2017, unvaried compared to 31 December 2016. Real estate investments break down as follows:

(€/million)	Buildings
Historical cost	12.9
Accumulated depreciation	(8.0)
Balance as at 31 December 2016	**4.9**
Reclassifications [1]	0.1
Amortisation	(0.3)
Balance as at 31 December 2017	**4.7**
broken down as follows:	
Historical cost	13.5
Accumulated depreciation	(8.8)
[1] Reclassification of the item Property, plant and equipment following the change to intended use of a building as follows:	
Historical cost	0.6
Accumulated depreciation	(0.5)
	0.1

No investments or disposals were made during 2017. So the variation in the year refers to the amortisation portion and reclassification from the item Property, plant and equipment following the change to intended use of the building owned by Rai Pubblicità.

Based on the latest estimates, the market value as at 31 December 2017 of the buildings entered under real estate investments ranges between €42.7 million and €46.1 million.

12.3 Intangible assets

Intangible assets, which amounted to €944.9 million (€950.4 million as at 31 December 2016), are broken down as follows:

(€/million)	Programmes	Software	Trademarks	Goodwill	Other intangible assets	Assets under development and payments on account	Total
Cost	1,380.2	15.3	0.1	-	1.5	295.3	1,692.4
Write-downs	(44.0)	-	-	-	-	(23.2)	(67.2)
Amortisation	(667.3)	(6.2)	(0.1)	-	(1.2)	-	(674.8)
Balance as at 31 December 2016	**668.9**	**9.1**	**-**	**-**	**0.3**	**272.1**	**950.4**
Increases and capitalisation	282.7	4.6	-	5.0	3.4	168.6	464.3
Disposals [1]	-	-	-	-	-	(1.2)	(1.2)
Reclassifications	141.8	7.6	-	-	-	(149.4)	-
Write-downs	(43.8)	-	-	-	-	(10.1)	(53.9)
Amortisation [2]	(408.1)	(6.2)	-	-	(0.4)	-	(414.7)
Balance as at 31 December 2017	**641.5**	**15.1**	**-**	**5.0**	**3.3**	**280.0**	**944.9**
broken down as follows [3]:							
Cost	1,421.2	25.5	0.1	5.0	3.9	310.7	1.766.4
Write-downs	(55.7)	-	-	-	-	(30.7)	(86.4)
Amortisation	(724.0)	(10.4)	(0.1)	-	(0.6)	-	(735.1)
[1] of which:							
Cost	-	-	-	-	-	(2.2)	(2.2)
Write-downs	-	-	-	-	-	1.0	1.0
Amortisation	-	-	-	-	-	-	-
	-	-	-	-	-	**(1.2)**	**(1.2)**
[2] net of use of the provision for write-downs for:							
Write-downs	32.1	-	-	-	-	-	32.1
Amortisation	(32.1)	-	-	-	-	-	(32.1)
	-	-	-	-	-	-	-
[3] amounts net of assets amortised in full at year end and, for assets under development, net of assets eliminated, amounting to:							
Cost	(383.5)	(2.0)	-	-	(1.0)	(1.6)	(388.1)
Write-downs	-	-	-	-	-	1.6	1.6
Amortisation	383.5	2.0	-	-	1.0	-	386.5
	-	-	-	-	-	-	-

Investments, which amounted to €464.3 million (€484.0 million as at 31 December 2016) mainly refer to TV series for €319.9 million and cartoons for €102.9 million.

Following the merger through incorporation of Sud Engineering into Rai Way, already mentioned above, the deficit generated was attributed to Goodwill for €5.0 million – with the consent of the Board of Statutory Auditors of Rai Way – and Other intangible assets for €3.4 million corresponding to the value attributed to the "Client portfolio – business combination transactions".

Please note that, as required by IAS 36 "Reduction of asset value", related to the Goodwill item a sensitivity analysis was performed which confirmed that the value entered in the Consolidated Financial Statements could be recovered. Please note that analysis was performed using a WACC of 6% applied to future cash flows calculated mainly following rationalisation of costs from the merger through incorporation of Sud Engineering into Rai Way. Further sensitivity analyses were carried out for the assessment, in compliance with the financial parameters also adopted to calculate the value in use, getting the discount rate to fluctuate in a range of between +/- 10% compared to the base figure 110.

The amount of assets under development and payments on account refers to programmes for €269.9 million, software for €8.9 million and other rights for €1.2 million.

The write-downs recognised during the year amounted to €53.9 million, and were performed in order to adjust the assets to their estimated recoverable value.

The amount of the existing contractual commitments for the purchase of intangible assets is specified in Note 18.2 "Commitments".

12.4 Equity investments

Equity investments valued by the Equity method and other investments, respectively for €6.0 million (€8.4 million as at 31 December 2016) and €0.9 million (€0.7 million as at 31 December 2016), break down as follows:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Joint ventures	4.1	5.4
Associates	1.9	3.0
Total investments measured by Equity method	**6.0**	**8.4**
Equity investments in other companies	0.9	0.7
Total equity investments	**6.9**	**9.1**

Here below are the movements of investments measured by the Equity method:

(€/million)	Year ended 31 December 2016			Change in the year			**Year ended 31 December 2017**			
	Cost	Adjustment to shareholders' equity	Book value	Acquisitions	Profit/(Loss)	Decrease due to dividends	Cost	Adjustment to shareholders' equity	Book value	
Joint ventures:										
San Marino RTV SpA	0.2	1.8	2.0	-	-	-	0.2	1.8	2.0	
Tivù Srl	0.5	2.9	3.4	-	0.6	(1.9)	0.5	1.6	2.1	
Associated companies:										
Audiradio Srl (in liquidation)	1.4	(1.4)	-	-	-	-	1.4	(1.4)	-	(a)
Auditel Srl	-	0.7	0.7	-	-	-	-	0.7	0.7	(a)
Euronews SA	0.9	1.4	2.3	-	(1.1)	-	0.9	0.3	1.2	
Tavolo Editori Radio Srl	-	-	-	-	-	-	-	-	-	(a)
Total equity investments in joint ventures and associated companies	**3.0**	**5.4**	**8.4**	**-**	**(0.5)**	**(1.9)**	**3.0**	**3.0**	**6.0**	

(a) valuation relating to the Financial Statements as at 31 December 2016, the latest available.

Investments in joint ventures concern:

- *San Marino RTV SpA* (50% Rai): the company, formed in 1991 with joint shares of Rai and E.RA.S. ("San Marino Broadcasting Body"), based on Law 99 of 9 April 1990 ratifying the radio and television collaboration agreement between the Italian Republic and the Republic of San Marino, has a share capital of €0.5 million, made up of 1,000 shares of the face value of €516.46 each. Related to the positive result achieved by the company in 2017, the investment was revalued, for an insignificant amount in millions of €, to adjust it to the value of €2.0 million corresponding to the Rai share of the company's shareholders equity.

- *Tivù Srl* (48.16% Rai): the share capital of €1 million is subscribed by Rai and by R.T.I. Reti Televisive Italiane SpA – with joint shares of 48.16%, by TI Media – Telecom Italia Media SpA – with a 3.5% share, and by two associations – FRT and Aeranti Corallo – each with a 0.09% share. During 2017, distribution of a dividend of €4.0 million was resolved for 2016. The amount concerning Rai, €1.9 million, was recorded to reduce the book value of the equity investment. Following the profit attained by the company in 2017 which amounted to €1.2 million, the equity investment was revalued for the portion concerning Rai, which came to €0.6 million. The equity investment was recognised for the value of €2.1 million, which corresponds to Rai's portion of the company's shareholders' equity.

Equity investments in associated companies concern:

- *Audiradio Srl in liquidation* (27% Rai): the share capital amounts to €0.3 million and consists of 258,000 shares of the face value of €1 each. the gross value of the equity investment, €1.4 million, was totally written down based on the last Financial Statements as at the date of 31 December 2016, which showed negative shareholders' equity that was not significant in millions of €. The portion of the equity deficit was allocated to a special provision for charges.

- *Auditel Srl* (33% Rai): the share capital, €0.3 million, consists of 300.000 shares of the face value of €1 each. The equity investment was recognised for the value of €0.7 million, corresponding to the percentage concerning Rai on the shareholders' equity of the company posted in the last Financial Statements as at the date of 31 December 2016.

- *Euronews - Société Anonyme* (3.08% Rai): the share capital, €26.9 million, consists of 1,792,373 shares of the face value of €15 each. During 2017, the company carried out two capital increase operations subscribed by Media Globe Networks and Universal Studios Limited, which reduced the percentage of Rai's ownership from 9.66% to 3.08%. The investment was written down as at 31 December 2017 for the amount of €1.1 million to adjust it to the percentage concerning Rai on the shareholders' equity value of the company corresponding to €1.2 million.

- *Tavolo Editori Radio Srl* (15.8% Rai): the share capital, €0.1 million, is divided between national publishers (70%), – of which Rai 15.8% – and local ones (30%). The Rai share has an insignificant value in millions of €.

Here below are the movements of the other investments:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Almaviva	0.3	0.3
Istituto Enciclopedia Treccani	0.7	0.5
Others [1]	0.1	0.1
Gross value	**1.1**	**0.9**
Provision for write-downs of other investments	(0.2)	(0.2)
Total equity investments	**0.9**	**0.7**

[1] Banca di Credito Cooperativo di Roma Scpa and International Multimedia University Umbria Srl.

Equity investments in other companies concern:

- *Almaviva – The Italian Innovation Company SpA* (0.83% Rai): the investment value, €0.3 million, has not changed since the previous year. The share capital, which is €154.9 million, is represented by 107,567,301 ordinary shares and by 47,331,761 special shares, both of the face value of €1.00 each.

- *Istituto Enciclopedia Treccani SpA* (0.89% Rai): the equity investment was recognised for a gross value of €0.7 million, written down for €0.1 million as a result of the losses the company sustained. During 2017, two capital increases against payment were made by issuing a total of 18,232,558 ordinary shares of the face value of Euro 1, of which 8,000,000 offered under option to the old shareholders. Rai subscribed its portion of capital and exercised its pre-emption right on the purchase of the shares not opted by the old shareholders. At the end of the capital increase operation, Rai subscribed a total amount of €0.2 million, taking its percentage of ownership up from 0.81% to 0.89%.

- *Banca di Credito Cooperativo di Roma Scpa* (company with variable capital, with the percentage held by Rai insignificant): was recognised for the value of €1 thousand, equivalent to what was paid in on 16 January 2009 for the acquisition of 100 shares.

- *International Multimedia University Umbria Srl* (1.533% Rai): the investment value was written down in full as it is no longer certain that the amounts paid can be recovered.

12.5 Non-current financial assets

Non-current financial assets, which amounted to €4.6 million (€0.2 million as at 31 December 2016), break down as follows:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Financial receivables from personnel	-	0.1
Securities	2.5	-
Hedging financial tools	1.2	-
Other non-current financial assets (deferrals)	0.9	0.1
Total non-current financial assets	**4.6**	**0.2**

Non-current financial assets are shown net of the provision for write-downs of €0.2 million (unchanged compared to 31 December 2016) entirely referring to the Financial receivables from employees.

The Securities item, €2.5 million (zero as at 31 December 2016), is entirely made up of government bonds falling due in May 2021, given to secure the Service Contract and the Agreements with the State.

The assets for derivatives hedging, for €1.2 million (zero as at 31 December 2016), is referred to the fair value of the Interest Rate Swap Forward Start contracts stipulated by Rai in April 2017 and taking effect in May 2020 with validity for the next 5 years to hedge the risk of rising interest rates at the time the bond issue is refinanced. Current portions were not recognised.

Expiration of the current and non-current financial assets is broken down as shown below:

(€/million)	Year ended 31 December 2017			
	Within 12 months	Between 1 and 5 years	Beyond 5 years	Total
Securities	-	2.5	-	2.5
Receivables from joint ventures and associated companies	0.5	-	-	0.5
Derivative instruments	-	1.2	.	1.2
Blocked bank deposits	6.3	-	-	6.3
Other financial assets	0.4	0.9	-	1.3
Total	**7.2**	**4.6**	**-**	**11.8**

(€/million)	Year ended 31 December 2016			
	Within 12 months	Between 1 and 5 years	Beyond 5 years	Total
Financial receivables from personnel	0.1	0.1	-	0.2
Derivative instruments	1.7	-	-	1.7
Blocked bank deposits	5.5	-	-	5.5
Other financial assets	0.1	0.1	-	0.2
Total	**7.4**	**0.2**	**-**	**7.6**

The short-term portion of the Financial assets, which amounted to €7.2 million, is included in the current components of the consolidated Balance Sheet described in Note 13.3 "Current financial assets".

Information on risks hedged and on hedging policies is disclosed in Note 8.1 "Market risk".

12.6 Deferred tax assets

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Deferred tax assets eligible for offset	122.3	137.7
Deferred tax liabilities eligible for offset	(160.9)	(161.9)
Deferred tax liabilities	**(38.6)**	**(24.2)**

Like as at 31 December 2016, as at 31 December 2017 the net balance of Deferred tax assets and Deferred tax liabilities shows a negative amount, so it is posted in the liabilities of the Financial Position. Please refer to Note 15.4 "Deferred tax liabilities" for the relevant analyses.

Income taxes are reported in Note 17.9 "Income taxes".

12.7 Other non-current assets

Other non-current assets totalled €15.2 million (€17.7 million as at 31 December 2016) and break down as follows:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Advances for sports events	7.0	6.9
Advances for trade initiatives	20.6	20.5
Non-current portion of trade receivables	1.0	2.2
Receivables from personnel	0.5	0.3
Amounts committed to cautionary deposit with third parties	2.3	2.6
Other non-current receivables	4.4	3.7
- Provision for write-down of other non-current assets	(20.6)	(18.5)
Total other non-current assets	**15.2**	**17.7**

The items above basically regard non-current portions of assets described in Note 13.5 "Other current receivables and assets", to which the reader is referred.

The provision for write-down of other non-current assets, which amounted to €20.6 million (€18.5 million as at 31 December 2016), is broken down below:

(€/million)	Year ended 31 December 2016	Provisions	Drawdowns	Absorptions	**Year ended 31 December 2017**
Provision for write-down of advances for trade initiatives	(11.9)	(1.8)	-	-	(13.7)
Provision for write-down of advances for sports events	(6.6)	(0.3)	-	-	(6.9)
Total provision for write-down of other non-current assets	**(18.5)**	**(2.1)**	**-**	**-**	**(20.6)**

13) Current assets

13.1 Inventory

Inventory, net of its provision for write-downs, amounted to €2.4 million (€2.9 million as at 31 December 2016), and is broken down as follows:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Technical materials	13.0	13.1
Technical materials bad debt provisions	(12.1)	(12.2)
Work in progress to order	0.2	0.2
Finished products and goods	1.3	1.8
Total inventory	**2.4**	**2.9**

The final inventory of technical materials, €0.9 million net of the bad debt provisions (€0.9 million as at 31 December 2016), refers to stock and spare parts for maintenance and the use of technical capital equipment similar to consumables since their utility is depleted over a period that usually is no longer than 12 months.

Work in progress to order, €0.2 million (unvaried compared to 31 December 2016), refers to costs sustained to develop the Isoradio network, entered in the Financial Statements of the subsidiary Rai Way.

Final inventory of finished products and goods, €1.3 million (€1.8 million as at 31 December 2016), mainly concern inventories related to magazines and books and home video distribution.

13.2 Trade receivables

Trade receivables amount to €390.6 million (€637.0 million as at 31 December 2016) and break down as follows:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Trade:		
State and other public bodies for agreement services	61.6	84.3
Ministry for the Economy and Finance for Licence Fees	-	228.9
Other receivables	374.0	370.5
Provision for write-downs - trade	(45.2)	(47.1)
Joint ventures and associates	0.2	0.4
Total trade receivables	**390.6**	**637.0**

Receivables from joint ventures and associated companies refer to:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Joint ventures and associated companies:		
San Marino RTV SpA	0.1	0.1
Tivù Srl	0.1	0.3
Receivables from joint ventures and associated companies	**0.2**	**0.4**

The €246.4 million decrease is mainly due to collection of the receivables from the Ministry of Economy and Finance for Licence Fees.

The breakdown of trade receivables by geographical area shows a national predominance.

The nominal value of receivables from the State and other public bodies for agreement services, €61.6 million (€84.3 million as at 31 December 2016), refers to:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Prime Minister's Office:		
Contribution to the year to be paid to San Marino RTV	3.1	3.1
Radio, television and multimedia offer for abroad	6.7	6.7
Broadcasts from Trieste in Slovenian	11.4	7.4
Radio and TV broadcasts in French for the Valle d'Aosta Autonomous Region	2.1	1.4
Revenue Office:		
Management of ordinary TV licence fees	10.5	14.8
Regions and Provinces:		
autonomous Province of Bolzano: broadcast of radio and TV programmes in German and Ladin in the autonomous province of Bolzano	19.2	42.3
autonomous Region of Valle d'Aosta: management of plants for the TV reception of programmes from the French cultural area	8.6	8.6
Total	**61.6**	**84.3**

The other trade receivables are net of amounts transferred non-recourse for, as at 31 December 2017, €7.2 million (€7.0 million as at 31 December 2016).

Receivables from Related Parties are specified in Note 18.4 "Transactions with Related Parties".

Trade receivables are shown net of the provision for write-downs of €45.2 million (€47.1 million as at 31 December 2016), with movements itemised below:

(€/million)	Year ended 31 December 2016	Provisions	Drawdowns	Absorptions	**Year ended 31 December 2017**
Provision for write-downs – trade	(47.1)	(2.4)	3.7	0.6	(45.2)
Provision for write-downs – trade	**(47.1)**	**(2.4)**	**3.7**	**0.6**	**(45.2)**

13.3 Current financial assets

Current financial assets, which amounted to €7.2 million (€7.4 million as at 31 December 2016), decreased by €0.2 million. The breakdown of the item and the comparison with the previous year are shown below:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Joint ventures and associates	0.5	-
From employees	-	0.1
Hedging derivatives	-	1.7
Blocked bank deposits	6.3	5.5
Other current financial assets	0.4	0.1
Total current financial assets	**7.2**	**7.4**

Receivables from joint ventures and associated companies refer to:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Joint ventures and associated companies:		
San Marino RTV SpA	0.5	-
Total current financial assets from joint ventures and associated companies	**0.5**	-

Blocked bank deposits, which came to €6.3 million (€5.5 million as at 31 December 2016) refer to amounts seized on current accounts due to litigation in progress.

The hedging derivatives recognised at fair value are broken down below in the assets component, including the current and non-current portions:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Currency hedging derivatives	-	1.7
Total derivative financial instruments – current portion	**-**	**1.7**
Rate hedging derivatives	1.2	-
Total derivative financial instruments – non-current portion	**1.2**	**-**
Total derivative financial instruments	**1.2**	**1.7**

The fair value of the derivative instruments was calculated considering valuation models largely used in the financial field and the market parameters as at the reporting date, as better specified in Note 10 "Fair value measurement". Cash flow hedging transactions on exchange – in 2016 – concern hedging of contracts for the purchase of rights to broadcast sports events and TV programmes in USD.

During 2017 there were no significant case where, for transactions previously qualified as hedging, implementation of hedging was no longer considered highly probable.

The fair value of the assets for derivatives hedging the risk of change in interest rate falls under non-current financial assets and amounted to €1.2 million (zero at 31 December 2016), refers to the Interest Rate Swap Forward Start contracts stipulated in April and taking effect in May 2020 with validity for the next 5 years to hedge the risk of rising interest rates at the time the bond issue is refinanced. Current portions were not recognised.

Information on risks hedged and on hedging policies is disclosed in Note 8.1 "Market risk".

13.4 Current income tax receivables

Current income tax receivables, which totalled €21.7 million (€20.2 million as at 31 December 2016), are specified as follows:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
IRES refund requested	16.9	16.9
Withheld taxes	1.1	0.8
Total IRES	**18.0**	**17.7**
IRAP	**3.9**	**2.5**
Provision for write-downs for current income taxes	**(0.2)**	**-**
Total current income tax receivables	**21.7**	**20.2**

Current income tax receivables are shown net of the provision for write-downs of €0.2 million relating to deductions on income risking recoverability.

The IRAP receivable, €3.9 million (€2.5 million as at 31 December 2016) refers to the IRAP advances paid to tax authorities.

The taxes are commented in Note 17.9 “Income taxes”.

13.5 Other current receivables and assets

Other current receivables and assets, which totalled €69.6 million (€194.1 million as at 31 December 2016) break down as follows:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Advances for sports events	0.7	11.6
Advances for trade initiatives	-	0.7
Advances to suppliers, collaborators and agents	20.6	14.0
Receivables from social security and welfare institutions	3.7	2.8
Other tax receivables	3.7	115.4
Receivables from personnel	10.1	12.3
Receivables from entities, companies, bodies and others	16.1	15.1
Receivables for subsidies and grants from the State, EU and other public entities	0.2	0.3
Other receivables	19.0	25.9
- Provision for write-downs for other current receivables and assets	(4.5)	(4.0)
Total other current receivables and assets	**69.6**	**194.1**

Please note that:

- the receivables from social security and welfare institutions refer to advances disbursed against contributions due for artistic collaborations and other reasons;
- receivables from personnel are mainly referred to receivables from labour disputes, to advances for travel expenses and for production expenses. The item includes receivables from application of Law 89/2014;
- other tax receivables decreased by €111.7 million due to the collection of VAT receivables assigned without recourse to the factor and to the introduction of the split payment regulation

starting from 1 July 2017, which led to full use of the residual VAT receivables. The breakdown of this item follows:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Group VAT	-	54.1
VAT refund requested	2.1	60.1
Other tax refunds requested	0.2	0.1
Other	1.4	1.1
Total other tax receivables	**3.7**	**115.4**

The provision for write-downs for other current receivables and assets, which totalled €4.5 million (€4.0 million as at 31 December 2016) is broken down below:

(€/million)	Year ended 31 December 2016	Provisions	Drawdowns	Absorptions	**Year ended 31 December 2017**
Provision for write-downs for other current receivables and assets	(4.0)	(1.8)	1.2	0.1	(4.5)
Total provision for write-downs for other current receivables and assets	**(4.0)**	**(1.8)**	**1.2**	**0.1**	**(4.5)**

Considering the short period of time elapsing between when the receivable arises and its due date, it is not believed that there are significant differences between the book value of the trade receivables, other current receivables and assets and other current financial receivables and current assets compared to their respective fair values.

13.6 Cash and cash equivalents

Cash and cash equivalents, which amounted to €228.0 million (€86.2 million as at 31 December 2016), are broken down into the following items:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Bank and postal deposits	227.7	85.9
Cash and securities in hand	0.3	0.3
Total cash and cash equivalents	**228.0**	**86.2**

Bank and postal deposits amounted to €227.7 million (€85.9 million as at 31 December 2016) and represent the money at-call or short-term liquid assets resulting from deposit or current accounts with banks, financial institutions and with the postal administration.

Cash and securities in hand amounted to €0.3 million (unvaried as at 31 December 2016) and include the liquidity represented by cash and similar values (tax stamps, cashier's cheques or in any case secured by banks, etc.) in the company's coffers as at 31 December 2017.

The Company's liquid assets are shown in the following table by currency as at 31 December 2017 and as at 31 December 2016:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Cash on hand in Euro	226.3	85.4
Cash on hand in USD	1.6	0.7
Cash on hand in other currencies	0.1	0.1
Total cash and cash equivalents	**228.0**	**86.2**

14) Shareholders' equity

Reported below is the breakdown of shareholders' equity, divided between the Group and minority shares:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Share capital	**242.5**	**242.5**
Legal reserve	**11.8**	**11.6**
IFRS first-time adoption reserve	(58.7)	(58.7)
Translation difference reserve	0.7	0.7
Cash flow hedge reserve	0.8	0.3
Other reserves	255.3	252.0
Total other reserves	198.1	194.3
Actuarial reserve for employee benefits	(28.7)	(31.9)
Profit (Loss) for the year	(5.4)	3.5
Total retained earnings (losses carried forward)	**(34.1)**	**(28.4)**
Total Group shareholders' equity	**418.3**	**420.0**
Third party capital and reserves	42.2	42.2
Retained earnings (losses) attributable to minority interests carried forward	19.6	14.4
Total shareholders' equity attributable to minority interests	**61.8**	**56.6**
Total shareholders' equity	**480.1**	**476.6**

Third party equity interest

The profit/(loss) for the year and the shareholders' equity of Third party equity interest refer to the subsidiary Rai Way, with Rai holding a 64.971% share.

Share capital

As at 31 December 2017, the share capital of the Parent Company consisted of 242,518,100 ordinary shares with a unit par value of €1. The share capital, fully subscribed and paid up, is held by:

- the Ministry of the Economy and Finance (MEF) for a total of 241,447,000 shares, equal to 99.5583% of the share capital; and
- Società Italiana Autori Editori (S.I.A.E.) for a total of 1,071,100 shares, equal to 0.4417% of the share capital.

Legal reserve

The legal reserve amounts to €11.8 million.

Other reserves and retained earnings (losses carried forward)

The other reserves, for €198.1 million (€194.3 million as at 31 December 2016) and losses carried forward, for €34.1 million (€28.4 million as at 31 December 2016) are broken down as shown below.

15) Non-current liabilities

15.1 Non-current financial liabilities and current portions of non-current financial liabilities

Non-current financial liabilities, including current portions, total €443.5 million (€482.7 million as at 31 December 2016). The figure breaks down as follows:

(€/million)	Year ended 31 December 2017			Year ended 31 December 2016		
	Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
Bonds	347.8	-	347.8	346.9	-	346.9
Medium/long-term loans due to banks	55.3	40.0	95.3	95.3	39.9	135.2
Hedging derivatives	-	-	-	0.1	-	0.1
Medium/long-term loans due to other lenders	0.3	0.1	0.4	0.4	0.1	0.5
Total	**403.4**	**40.1**	**443.5**	**442.7**	**40.0**	**482.7**

Non-current financial liabilities, including current portions, decrease by €39.2 million compared to 31 December 2016 mainly due to:

- repayment of EIB loan instalments for €10.0 million by Rai;
- repayment of two instalments of the Rai Way amortising loan for €30.0 million.

The main medium/long term bank loans due as at 31 December 2017 included:

- amortising loan, maturing in 2021, from the BEI for a residual €35 million, granted to Rai for development of the digital terrestrial infrastructure;
- Rai Way amortising loan for a residual amount of €60.0 million, with the final due date in 2019;
- medium-long term credit lines granted to Rai Way by Mediocredito Centrale and Cassa Depositi e Prestiti for a total amount of €0.8 million.

The EIB loan foresees compliance with the following balance sheet parameters/ratios to be met in the consolidated annual and six-monthly financial statements drawn up pursuant to international accounting standards:

- Net Financial Indebtedness (adjusted net of receivables from the State for television licence fees)/ shareholders' equity <= 1.3;
- Net Financial Indebtedness, (adjusted net of receivables from the state for television licence fees)/ EBITDA<= 1.0.

As at the reporting date, the ratio requirements were fully met at 0.44 and 0.34 respectively.

The Rai Way amortising loan foresees compliance with the following balance sheet parameters/ratios to be met in the annual and six-monthly financial statements of the company:

- Net Financial Indebtedness/shareholders' equity <= 2.75;
- Net Financial Indebtedness/EBITDA <= 2.75.

The ratio requirements were fully met at 0.03 and 0.04 respectively.

The bond issued by Rai in May 2015 is listed on Euronext Dublin And was fully subscribed by international institutional investors. The bond, maturing in May 2020, yields a nominal interest rate of 1.5%, is completely unsecured. The bond carries the usual covenants for issues with a comparable rating, including:

- a Negative Pledge hence prohibiting the granting of guarantees on other bond issues by the Issuer or its "significant subsidiaries", unless the same guarantees are extended to existing bonds in circulation;
- a Cross-Default provision, whereby in the event of default on debt totalling more than €50 million by the Issuer or its "significant subsidiaries", bondholders may declare default on the bond;
- a Change of Control clause permitting bondholders to exercise a put option at par if the Ministry of the Economy and Finance ceases to hold the majority of voting rights exercisable at ordinary and extraordinary Shareholders' Meetings of Rai.

In January 2018, Moody's issued a credit opinion confirming its Long-Term Issuer Baa3 (investment grade) rating.

The final due date of financial liabilities held (current and non-current) is shown in the table below.

(€/million)	Year ended 31 December 2017			
	Within 12 months	Between 1 and 5 years	Beyond 5 years	Total
Bonds	-	347.8	-	347.8
Medium/long-term loans due to banks	40.0	55.3	-	95.3
Medium/long-term loans due to other lenders	0.1	0.3	-	0.4
Hedging derivatives	0.5	-	-	0.5
Other financial liabilities	0.2	-	-	0.2
Total	**40.8**	**403.4**	**-**	**444.2**

(€/million)	Year ended 31 December 2016			
	Within 12 months	Between 1 and 5 years	Beyond 5 years	Total
Bonds	-	346.9	-	346.9
Medium/long-term loans due to banks	39.9	95.2	0.1	135.2
Short-term payables to banks	160.1	-	-	160.1
Medium/long-term loans due to other lenders	0.1	0.4	-	0.5
Payables to joint ventures and associates	0.1	-	-	0.1
Hedging derivatives	-	0.1	-	0.1
Other financial liabilities	0.3	-	-	0.3
Total	**200.5**	**442.6**	**0.1**	**643.2**

The fair value of non-current financial liabilities (excluding derivative financial instruments) is reported in the table shown below, as measured under the following criteria:

- bond, at the Euronext Dublin listing value, equal to €104.06 (inclusive of interest accruals);
- EIB loan (including the short-term portion), calculated by discounting cash flows for principal and interest repayments at the rates implicit in the Euro curve as at the reporting date, plus a credit spread estimated for Rai on the basis of Italian government securities issued. The resulting value is in line with the carrying amount entered in the Consolidated Financial Statements.

(€/million)	**Year ended 31 December 2017**		Year ended 31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Rai Bonds	347.8	364.2	346.9	360.7
Rai - Loan BEI	35.0	36.0	45.0	46.0

As concerns Rai Way loans, the carrying amount is estimated to meet their fair value.

The fair value of non-current payable derivatives is not significant as at 31 December 2017 (€0.1 million as at 31 December 2016) and is related to the Interest Rate Swap transactions stipulated by Rai Way to hedge 50% of the amortising credit line. For derivative financial instruments, the breakdown of their fair value is reported in Note 10 "Fair value measurement"; quantification of attribution of market value variations in the Consolidated income statement and the consolidated shareholders' equity reserve can be found in Note 16.2 "Current financial liabilities".

15.2 Employee benefits

Employee benefits totalled €483.1 million (€555.0 million as at 31 December 2016). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2017
Provision for employee severance pay	258.8	283.5
Provision for supplementary pension benefits (*)	137.2	144.3
Provision for pay in lieu of notice to journalists	69.5	109.2
Health insurance fund for senior managers (FASDIR)	14.7	15.0
Seniority bonuses	2.3	2.3
Other employee benefits	0.6	0.7
Total employee benefits	**483.1**	**555.0**

(*) Net of Fipdrai assets.

The provision for employee severance pay, governed by Article 2120 of the Civil Code, shows the liability, as estimated using actuarial techniques, for benefits payable to employees upon the termination of their employment. The termination benefit is calculated on the basis of the remuneration paid for service under the employment contract, revalued until the time of termination. As a result of legislative reforms introduced and effective as of 1 January 2007, employee severance pay accruing after that date is paid, at the instruction of each employee, into a pension fund or into the treasury fund held by INPS. Accordingly, the liability for employee severance pay accrued prior to 1 January 2007 continues to qualify as a defined benefit plan to be measured using actuarial techniques, whereas the liability for severance pay accruing after that date is treated as a defined contribution plan, given that the liability is extinguished with the payment of contributions to the chosen pension fund or to INPS.

The supplementary pension fund shows the estimated liability held by the Group for supplementary pension benefits payable to some former employees who, upon termination of employment, opted for the supplementary pension scheme envisaged under trade union agreements previously in place. Under those agreements, former middle managers, office staff, workers and their family members are entitled to supplementary pension benefits with respect to those paid through the mandatory general pension scheme of ENPALS, whereas former senior managers and their family members are entitled to supplementary pension benefits with respect to those paid through the mandatory general pension scheme of INPS. Supplementary pension benefits are in turn paid directly by contractual pension funds, tasked with the management of the Rai employee supplementary pension scheme since 1989. For former middle managers, office staff and workers, supplementary pension benefits are paid by the C.Rai.P.I. (or "Craipi" – Cassa di Previdenza Integrativa dei dipendenti Rai) fund, while for former senior managers the benefits are paid by the F.I.P.D.Rai (or "Fipdrai" – Fondo Integrativo Previdenza dei Dirigenti Rai) fund. In brief, the main terms and conditions of the supplementary pension benefits are: (i) supplementary pension benefits may be paid as a survivor's pension, at the applicable rates for claimants provided by laws in force governing mandatory pension schemes; (ii) supplementary pension benefits will be subject to variations on the basis of changes in the beneficiary's family, applied at the same rates applicable to pension benefits paid under the mandatory general pension scheme; (iii) supplementary pension benefits paid will not be reduced in the event of increases in the pension benefits paid under the mandatory general pension scheme; (iv) the amount of the benefits due to beneficiaries will be revalued annually on the basis of INPS coefficients. Fipdrai assets resulting from investment activities by the fund to manage the contributions paid in by the Group companies upon the termination of employment of its employees came to nil in 2017. As at 31 December 2016, the assets totalled €3.1 million and were included in the measurement of provisions for supplementary pension benefits at that date.

The provision for pay in lieu of notice for journalists shows the estimated liability to be paid to journalists employed by the Company under the provisions of the most recent national collective bargaining agreement ("CNLG") adopted by Rai. Under that agreement, for journalists who, at 31 December 2018, have at least 15 years of service with the Company for employee severance pay purposes, in the event of termination of employment as of 1 January 2019 due to a) termination due to eligibility for the old age pension, including under the provisions of Article 33 of the CNLG; b) resignation after at least 15 years of service with the Company; or; c) termination due to death, where survivors are entitled to a

survivor's pension under INPGI Rules; upon termination of service an indemnity will be paid in lieu of notice, payable as a lump sum, equal to the gross annual remuneration of the employee at the time of his/her termination up to a maximum of €85,000. For journalists employed under the arrangements contemplated by Article 12 of the CNLG at the time of termination, and who meet the length of service requirement to be eligible for the indemnity, an indemnity will be paid, calculated as above, up to a maximum amount of €36,550.
For journalists who, at 31 December 2018, have less than 15 years of service with the Company but equal to or more than 10 years for the purposes of employee severance pay, in the event of termination of employment as of 1 January 2019 due to resignation, excluding the cases of resignation contemplated by Articles 8, 22, 24 and 32 of the CNLG, upon termination of service an indemnity will be paid in lieu of notice, to be paid in a lump sum, equal to the amount set forth for such cases by the FIEG-FNSI agreement of 24 June 2014, plus 50% for each case. For journalists employed under the arrangements contemplated by Articles 2 and 12 of the CNLG, the amounts set forth in FIEG-FNSI agreement of 24 June 2014 will be reduced by 50% and paid, solely and exclusively, in the same cases of resignation.
In addition to the foregoing, the provision for pay in lieu of notice for journalists includes the estimated indemnity that will be paid to employees who resign in 2018.

The health insurance fund for Rai senior managers ("FASDIR") was established in 1980 to provide supplementary health insurance to all managers of the Group in service, retired senior managers and the survivors of former senior managers, as entitled and registered with FASDIR (hereinafter "Members"), as well as their family members. FASDIR is funded by annual membership fees charged to members and by contributions paid by the Company (annual per capita contribution for each senior manager in service and a supplementary annual contribution covering all retired senior managers). Historically, the annual supplementary contribution paid in to FASDIR by Rai for retired senior managers was used by the fund to cover the deficit that formed each year. However, given that there is no legal duty, but only a constructive obligation, for Rai to cover any future deficits in the fund, and that the Parent Company does not have access to all the information, owned by the fund, necessary to measure, using actuarial techniques, the potential liability towards FASDIR, it was decided to estimate the liability considering the average annual contributions paid in to the fund over the last 5 years, multiplied by the average residual life of the retired senior managers at the valuation date, which as at 31 December 2016 was found to be 12 years.
Seniority bonuses, established by Rai Pubblicità, are benefits paid in money on reaching a period of service in the Company. Those bonuses are included in the long term benefits plan.

Provisions for employee benefits measured using actuarial techniques break down as follows:

(€/million)	Year ended 31 December 2017				
	Employee severance pay	Pension funds	FASDIR	Provision for pay in lieu of notice to journalists	Other benefits
Present value of the liability at the start of the year	**283.5**	**144.3**	**15.0**	**109.2**	**3.0**
Current cost of defined benefit plans	-	-	-	6.5	0.1
Current cost of defined contribution plans	43.8	-	0.7	-	-
Interest expense	1.9	1.3	0.2	1.3	-
Revaluations:					
- Actuarial gains/losses resulting from changes in demographic assumptions	(0.1)	5.4	-	(0.5)	-
- Actuarial gains/losses resulting from changes in financial assumptions	(1.5)	(1.5)	-	0.6	-
- Effect of past experience	(3.2)	(3.8)	-	1.2	-
- Actuarial gains/(losses) from return on assets servicing the plan	-	-	-	-	-
Cost of past benefits and gains/losses on settlement	-	-	-	(48.0)	-
Benefits paid	(23.7)	(8.5)	(1.2)	(0.8)	(0.2)
Transfers to external funds for defined contribution plans	(44.0)	-	-	-	-
Transfers of personnel from/to Group companies	-	-	-	-	-
Other movements	2.1	-	-	-	-
Present value of the liability at the end of the year	**258.8**	**137.2**	**14.7**	**69.5**	**2.9**

(€/million)	Year ended 31 December 2016				
	Employee severance pay	Pension funds	FASDIR	Provision for pay in lieu of notice to journalists	Other benefits
Present value of the liability at the start of the year	**289.7**	**147.5**	**15.0**	**113.7**	**2.9**
Current cost of defined benefit plans	-	-	-	7.1	0.2
Current cost of defined contribution plans	44.5	-	1.0	-	-
Interest expense	3.5	2.1	0.2	1.6	-
Revaluations:					
- Actuarial gains/losses resulting from changes in demographic assumptions	0.4	2.1	-	(0.5)	-
- Actuarial gains/losses resulting from changes in financial assumptions	12.6	7.4	-	3.9	-
- Effect of past experience	(3.9)	(4.4)	-	(1.5)	-
- Actuarial gains/(losses) from return on assets servicing the plan	-	-	-	-	-
Cost of past benefits and gains/losses on settlement	-	-	-	(12.4)	-
Benefits paid	(13.0)	(10.4)	(1.2)	(2.7)	(0.1)
Transfers to external funds for defined contribution plans	(44.7)	-	-	-	-
Transfers of personnel from/to Group companies	-	-	-	-	-
Other movements	(5.6)	-	-	-	-
Present value of the liability at the end of the year	**283.5**	**144.3**	**15.0**	**109.2**	**3.0**

Costs for employee benefits, as measured using actuarial assumptions and recognised in the Consolidated income statement, break down as follows:

(€/million)	Year ended 31 December 2017				
	Employee severance pay	Pension funds	FASDIR	Provision for pay in lieu of notice to journalists	Other benefits
Current cost of defined benefit plans	-	-	-	(6.5)	(0.1)
Current cost of defined contribution plans	(43.8)	-	(0.7)	-	-
Cost of past benefits and gains/losses on settlement	-	-	-	48.0	-
Net interest expense (income):					
- Interest expense	(1.9)	(1.3)	(0.2)	(1.3)	-
Total	**(45.7)**	**(1.3)**	**(0.9)**	**40.2**	**(0.1)**

(€/million)	Year ended 31 December 2016				
	Employee severance pay	Pension funds	FASDIR	Provision for pay in lieu of notice to journalists	Other benefits
Current cost of defined benefit plans	-	-	-	(7.1)	(0.2)
Current cost of defined contribution plans	(44.5)	-	(1.0)	-	-
Cost of past benefits and gains/losses on settlement	-	-	-	12.4	-
Net interest expense (income):					
- Interest expense	(3.5)	(2.1)	(0.2)	(1.6)	-
Total	**(48.0)**	**(2.1)**	**(1.2)**	**3.7**	**(0.2)**

Costs for defined benefit plans recognised in other Comprehensive income statement components; break down as follows:

(€/million)	Year ended 31 December 2017				
	Employee severance pay	Pension funds	FASDIR	Provision for pay in lieu of notice to journalists	Other benefits
Revaluations:					
- Actuarial gains/losses resulting from changes in demographic assumptions	0.1	(5.4)	-	0.5	-
- Actuarial gains/losses resulting from changes in financial assumptions	1.5	1.5	-	(0.6)	-
- Effect of past experience	3.2	3.8	-	(1.2)	-
- Actuarial gains/(Losses) from return on assets servicing the plan	-	-	-	-	-
Total	**(4.8)**	**(0.1)**	**-**	**(1.3)**	**-**

(€/million)	Year ended 31 December 2016				
	Employee severance pay	Pension funds	FASDIR	Provision for pay in lieu of notice to journalists	Other benefits
Revaluations:					
- Actuarial gains/losses resulting from changes in demographic assumptions	(0.4)	(2.1)	-	0.5	-
- Actuarial gains/losses resulting from changes in financial assumptions	(12.6)	(7.4)	-	(3.9)	-
- Effect of past experience	3.9	(4.4)	-	1.5	-
- Actuarial gains/(Losses) from return on assets servicing the plan	-	-	-	-	-
Total	**(9.1)**	**(5.1)**	**-**	**(1.9)**	**-**

Assets servicing the Fipdrai pension fund break down as follows:

(€/million)	**Year ended 31 December 2017**		Year ended 31 December 2016	
	With prices quoted on active markets	With prices not quoted on active markets	With prices quoted on active markets	With prices not quoted on active markets
Cash and cash equivalents	-	-	-	0.9
Debt instruments	-	-	-	(0.2)
Government securities or securities issued by international bodies	-	-	2.4	-
Total assets servicing the plan	**-**	**-**	**2.4**	**0.7**

The main actuarial assumptions adopted are reported below:

	Year ended 31 December 2017	Year ended 31 December 2016
Financial assumptions		
Average discount rates [1]	from 0.88% to 1.56%	from 0.65% to 1.13%
Inflation rate	1.50%	1.50%
Expected rates of growth in remuneration/benefits [2]:	from 1.21% to 3%	from 1.21% to 3%
Demographic assumptions		
Maximum retirement age	As per law	As per law
Mortality tables:		
- Employee severance pay	SI 2016 revised	SI 2014 revised
- Pension funds	AS62	SI 2014 revised
- Provision for pay in lieu of notice to journalists	SI 2016 revised	SI 2014 revised
Average annual employee leaving rate	from 3.70% to 7.80%	from 3.65% to 7.56%
Annual probability of advance requests	1.50%	from 1.00% to 1.50%

(1) Measured as the weighted average of Eurocomposite AA 2017 interest rates for 31 December 2017 and Eurocomposite AA 2016 interest rates for 31 December 2016.
(2) Including inflation.

The effects of a reasonably possible change in the discount rate at the end of the year closed as at 31 December 2017 and as at 31 December 2016 are shown below:

(€/million)	Sensitivity	Year ended 31 December 2017				Year ended 31 December 2016			
		Employee severance pay	Pension funds	FASDIR	Other benefits	Employee severance pay	Pension funds	FASDIR	Other benefits
Discount rate	+0.50%	251.1	131.5	-	66.7	273.4	141.2	-	105.1
	-0.50%	267.2	143.4	-	72.4	294.3	154.2	-	113.5

The timing of liabilities for defined benefit plans for employees is shown below.

(€/million)	Group		
Expected payments	Provision for pay in lieu of notice to journalists	Employee severance pay	Pension funds
Expected payments as at 31.12.2018	2.4	26.2	10.9
Expected payments as at 31.12.2019	3.0	19.0	10.5
Expected payments as at 31.12.2020	4.0	22.4	10.1
Expected payments as at 31.12.2021	4.1	19.9	9.6
Expected payments as at 31.12.2022	5.4	22.2	9.1
Expected payments as of 1.01.2023 and following years	55.8	176.1	97.8

15.3 Provisions for non-current risks and charges

Provisions for risks and non-current charges totalled €185.3 million (€228.1 as at 31 December 2016). The figure breaks down as follows.

(€/million)	Year ended 31 December 2016	Provisions	Drawdowns	Absorptions	Conversion differences	Other movements	**Year ended 31 December 2017**
Provisions for legal disputes	80.1	11.3	(15.7)	(5.4)	(0.4)	-	69.9
Provisions for building renovation and refurbishment	28.0	1.0	(1.0)	-	-	-	28.0
Provisions for dismantling and restoration costs	14.1	0.2	-	-	-	0.3	14.6
Provisions for accrued compensation costs	43.9	1.7	(18.8)	(7.7)	-	-	19.1
Provisions for social security disputes	3.0	-	-	-	-	-	3.0
Provisions for tax disputes	13.2	-	(4.5)	(6.1)	-	-	2.6
ISC and ISM provisions Agents	1.9	0.3	(0.1)	-	-	-	2.1
Provisions for licence fee refunds	0.7	-	(0.3)	-	-	-	0.4
Provisions for disputes over leases	1.4	-	-	-	-	-	1.4
Provisions for default interest payment risks	0.6	-	-	-	-	-	0.6
Provisions for write-downs of investments exceeding the carrying amount	-	-	-	-	-	-	-
Other provisions	41.2	8.9	(5.4)	(1.1)	-	-	43.6
Total provisions for non-current risks and charges	**228.1**	**23.4**	**(45.8)**	**(20.3)**	**(0.4)**	**0.3**	**185.3**

Provisions for legal disputes, totalling €69.9 million, show the prudential and forecast estimate of charges for pending lawsuits in which the Group is involved in various ways. Specifically, the figure includes (amounts inclusive of legal costs) provisions for civil, administrative and criminal litigation for €41.4 million, and €28.5 million in provisions for labour law disputes.

Provisions for building renovation and refurbishment, totalling €28.0 million, show the estimated costs expected to be incurred primarily in relation to the removal of structures containing asbestos present in buildings owned. The constructive obligation to proceed with the refurbishment and resulting renovation of the aforementioned buildings is connected with the Parent Company's expression of intent to perform such work, as expressed on several occasions in negotiations with trade unions.

Provisions for dismantling and restoration costs, totalling €14.6 million, show the estimated costs for the dismantling and removal of installations and modifications and the restoration of premises rented by the Group under operating leases which require the lessee to restore the area and/or rented premises to their original condition at the end of the lease (where the area and/or lease will not be renewed).

Provisions for accrued compensation costs, totalling €19.1 million, show the overall costs estimated in relation to employment contracts in place.

Provisions for social security disputes, totalling €3.0 million, show the estimated costs connected with pending legal disputes with social security institutions.

Provisions for tax disputes, totalling €2.6 million (€13.2 million as at 31 December 2016), show the total estimated costs for taxes, sanctions and interest possibly resulting from Rai Pubblicità tax disputes in progress. In compliance with international accounting standards, no provision was made referred to liabilities deemed merely possible or unlikely.
Please note that related to the VAT tax dispute originating from assessments notified to Rai Pubblicità in December 2016, the provisions, following adhesion to tax dispute settlement concessions (pursuant to Article 11 of Decree law 50/2017 converted with amendments by Law 96/2017), were used for €6.1 million due to the write-off of sanctions and for €4.5 million for interest paid at the time of adhesion.
For what concerns the dispute over irregularities formalised to Rai Pubblicità in the Formal Notices of Assessment of 2007 and 2010, concerning income taxes and VAT, there are no final sentences as yet. The contingent liabilities from those disputes were estimated based on the specific opinions of influential external advisers, calculated considering sentences issued to now by Tax Commissions for the facts disputed.
No new elements emerged during the year so the provisions, referred to specific findings for which the tax risk was considered probable, were adjusted for the interest accrued in the year. As at 31 December 2017 provisions totalled €2.6 million and are deemed consistent with the probable risk expressed by the external advisers for irregularities for which Rai Pubblicità has been unsuccessful in legal proceedings held till now.

ISC (supplementary customer indemnities) and ICM (meritocratic customer indemnities) provisions for agents, for €2.1 million, include amounts payable to agents when winding up agency agreements for reasons not attributable to the agent. The provisions are based on estimates that take into consideration the historic data and growth in the customer portfolio or in business with customers already in portfolio.

15.4 Deferred tax liabilities

Deferred tax liabilities totalled €38.6 million and are stated net of €122.3 million of deferred tax assets eligible for offsetting. The net balance as at 31 December 2016 showed a deferred tax liability of €24.2 million.

The nature of the temporary differences that gave rise to deferred tax liabilities and the deferred tax assets eligible for offset is reported in the table below:

(€/million)	Year ended 31 December 2016	Changes			Year ended 31 December 2017
		Income statement	Other comprehensive income	Equity	
Taxable differences in property, plant and equipment	(159.7)	2.0	-	-	(157.7)
Currency and rate derivatives	(0.2)	-	(0.1)	-	(0.3)
Other equity investments	(1.7)	-	-	-	(1.7)
Deferred taxes on consolidation adjustments	(0.2)	0.2	-	-	-
Other	(0.1)	(0.1)	-	(1.0) [1]	(1.2)
Deferred tax liabilities	**(161.9)**	**2.1**	**(0.1)**	**(1.0)**	**(160.9)**
Negative taxable income	129.5	28.5	-	(42.3)	115.7
Write-downs of programmes	0.1	0.4	-	-	0.5
Statutory/taxable difference programmes	-	0.1	-	-	0.1
Employee benefits	0.8	0.1	(0.1)	-	0.8
Estimate of provisions recovered	5.2	(2.0)	-	-	3.2
Deferred tax assets on consolidation adjustments	1.6	(0.1)	-	-	1.5
Other	0.5	-	-	-	0.5
Deferred tax assets eligible for offset	**137.7**	**27.0**	**(0.1)**	**(42.3)**	**122.3**
Net deferred tax liabilities	**(24.2)**	**29.1**	**(0.2)**	**(43.3)**	**(38.6)**

[1] Deferred taxes entered on the value attributed to the customer portfolio acquired from Rai Way following the merger through incorporation of Sud Engineering contra the Goodwill item.

Deferred tax assets were recognised when their future recoverability was considered reasonably certain.

Changes in other comprehensive income essentially consisted of deferred and prepaid taxes recognised under shareholders' equity and refer to the tax effect of benefit plans and cash flow hedging instruments recognised under hedge accounting rules.

Taxes prepaid on losses carried forward totalled €115.7 million, probably to be used related to possible offsetting with deferred tax liabilities being carried through the Consolidated income statement.

15.5 Other non-current payables and liabilities

Other non-current payables and liabilities are all stated in euros. Totalling €2.0 million (€3.6 million as at 31 December 2016), they refer entirely to deferred income for the non-current portion of government grants provided by the former Ministry of Communications to support initiatives for the switch-over to digital terrestrial. See Note 16.1 "Trade payables and other current payables and liabilities" for further information on those grants.

Payables to related parties are reported in Note 18.4 "Transactions with related parties".

16) Current liabilities

16.1 Trade payables and other current payables and liabilities

Trade payables and other current payables and liabilities amounted to a total €1,102.0 million (€1,033.7 million as at 31 December 2016). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Trade payables to suppliers	655.8	679.1
Trade payables to joint ventures and associates	4.3	7.1
Total trade payables	**660.1**	**686.2**
Payables to personnel	226.0	203.8
Payables to social security institutions	76.2	78.3
Other tax payables	59.4	38.0
Payables for frequency rights	0.4	-
Other payables for assessments	4.8	7.6
Advances:		
- Ordinary licence fees	56.9	-
- Other advances	7.7	6.5
Deferrals:		
- Grants for the switch-over to digital terrestrial	1.6	2.6
- Other deferrals	1.1	1.9
Accruals	3.1	3.1
Other payables	4.7	5.7
Total other current payables and liabilities	**441.9**	**347.5**
Total trade payables and other current payables and liabilities	**1,102.0**	**1,033.7**

Trade payables to joint ventures and associates refer to:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Auditel Srl	-	2.7
San Marino RTV SpA	3.4	3.4
Tavolo Editori Radio Srl	0.5	-
Tivù Srl	0.4	1.0
Trade payables to joint ventures and associates	**4.3**	**7.1**

Trade payables, totalling €660.1 million, fell by €26.1 million compared to 31 December 2016.

Other current payables and liabilities rose instead by €94.4 million, driven mainly by advances on licence fees, VAT payable due to the introduction of the split payment mechanism, and higher payables to personnel, connected with provisions for the special voluntary redundancy plan targeted at middle managers, office staff and workers and orchestra musicians.

Payables to personnel totalled €226.0 million (€203.8 million as at 31 December 2016). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Untaken paid annual leave	73.2	75.8
Untaken time in lieu	52.9	51.0
Wage and salary assessment	50.5	52.0
Redundancy incentives	47.6	22.7
Other	1.8	2.3
Total payables to personnel	**226.0**	**203.8**

Deferrals for grants for the switch-over to digital terrestrial included €1.6 million for the current portion of government grants paid to the Parent Company by the former Ministry of Communications between 2007 and 2011 to support initiatives to fast-track the switch-over to digital terrestrial. Such initiatives consisted in system upgrades and work on site infrastructure to extend the coverage of the digital network and improve reception levels and the quality of service for users. Those investments were tasked to the subsidiary Rai Way, which is responsible, inter alia, for the design, installation, construction, maintenance, implementation, development and management of telecommunications networks. The grant was recognised in the Income statement for each year in which a depreciation charge would have been recognised if the investment had been made by Rai, considering the ratio of the amount of the grant received to the investments made to complete the relative projects.

Payables to social security institutions totalled €76.2 million (€78.3 million as at 31 December 2016). The figure breaks down as follows.

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Payables to supplementary pension funds for personnel	21.1	23.2
Payables to INPGI	13.6	14.7
Payables to INPS	28.7	28.5
Payables to INAIL	0.1	-
Payables to CASAGIT	1.4	1.5
Contributions on assessed wages and salaries	10.3	9.5
Other payables	1.0	0.9
Payables to social security institutions	**76.2**	**78.3**

Other tax payables show taxes payable to the Inland Revenue other than current income tax. The item breaks down as follows:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Group VAT	21.3	-
Suspended VAT	1.0	1.5
Withheld tax on wages and salaries for employees and contractors, substitution tax and other withholdings	37.1	36.5
Total other tax payables	**59.4**	**38.0**

Total payables due in currencies other than the euro are reported in Note 8.1 “Market risk”.

Payables to related parties are reported in Note 18.4 “Transactions with related parties”.

16.2 Current financial liabilities

Current financial liabilities totalled €40.8 million (€200.5 million as at 31 December 2016). The breakdown is shown in the table below:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Medium/long-term loans due to banks (current portion)	40.0	39.9
Medium/long-term loans due to other lenders (current portion)	0.1	0.1
Short-term payables to banks	-	160.1
Hedging derivatives	0.5	-
Payables to joint ventures and associates – San Marino RTV	-	0.1
Other current payables and liabilities	0.2	0.3
Total current financial liabilities	**40.8**	**200.5**

The current portion of non-current financial liabilities reported in the table above is explained in Note 15.1 "Non-current financial liabilities".

The fair value of derivative financial liabilities, current and non-current, is given below:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Currency hedging derivatives	0.5	-
Total derivative financial instruments – current portion	**0.5**	**-**
Rate hedging derivatives	-	0.1
Total derivative financial instruments – non-current portion	**-**	**0.1**
Total derivative financial instruments	**0.5**	**0.1**

Transactions concern the cash flow hedge of the exchange risks for contracts to purchase TV rights to series and films quoted in US dollars and the Interest Rate Swap transactions on medium-long term loans.

The fair value payable on derivative financial instruments as at 31 December 2017, for €0.5 million (€0.1 million as at 31 December 2016), refers to exchange risk hedging transactions of the associate Rai Cinema and is entered adjusting the value to the right acquired. No non-current portions are recognised.

A negative fair value of €0.1 million entered in non-current financial Liabilities as at 31 December 2016 referred to the rate hedging transactions of Rai Way, fully suspended in shareholders' equity in the cash flow hedge reserve. That value is not significant in millions of euro as at 31 December 2017.

Information on risks hedged and on hedging policies is disclosed in Note 8.1 "Market risk".

16.3 Current income tax payables

Current income taxes payable totalled €30.5 million (€47.8 million as at 31 December 2016). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
IRES	30.0	46.6
IRAP	0.5	1.2
Total current income taxes payable	**30.5**	**47.8**

For what concerns amounts payable to the Inland Revenue for IRES, totalling €30.0 million (€46.6 million as at 31 December 2016), please note that Group companies opted for Group taxation; thus transferring to the Parent Company, as the consolidating party, compliance linked to settling and paying IRES for companies included in tax consolidation. Procedures for consolidating Group taxable income are governed by a specific agreement between the Parent Company and its subsidiaries, as described in Note 18.4 “Transactions with related parties”. Income taxes are reported in Note 17.9 “Income taxes”.

17) Income statement

17.1 Revenue from sales and services

The main items making up "Revenue from sales and services" are shown in the table below:

(€/million)	Year ended 31 December 2017	Year ended 31 December 2016
TV licence fees	1,776.6	1,909.7
Advertising	647.6	698.2
Other revenue	184.2	183.4
Total revenue from sales and services	**2,608.4**	**2,791.3**

The breakdown of revenue by geographical area shows it is predominantly originated in the domestic market.

TV licence fees

Revenue from TV licence fees in 2017 amounted to €1,776.6 million (€1,909.7 million in 2016. The figure breaks down as follows:

(€/million)	Year ended 31 December 2017	Year ended 31 December 2016
Licence fees for the year – household licences	1,633.3	1,792.7
Licence fees for the year – special licences	79.0	77.8
Licences fees collected by enforcement order	39.7	39.6
Licence fees for prior years – household licences	24.6	-
Licence fee refunds	-	(0.4)
Total TV licence fees	**1,776.6**	**1,909.7**

For revenue from TV licence fees (as defined in Note 4 "Measurement criteria"), total licence fees for private accounts were measured on the basis of information and data provided in relation to new collection methods, taking into consideration the provisions of Article 1(293) of Law 190 of 23 December 2014, under which amounts owing to Rai to cover the cost of Public Service operations was reduced by 5 per cent as of 2015.

The new collection methods were introduced by Law 208 of 28 December 2015 (the "2016 Stability Law"), which provided, in Article 1 (152 *et seq.*), for TV licence fees for household licences to be charged, as of 1 January 2016, directly in power bills issued by electricity companies, under a separately detailed item.

The law thus introduced, in an effort to overcome evasion, the mechanism by which if a household has a utility account for power supply to a registered home address, then it can be presumed that the household is in possession of a television set. The presumption of the possession of a television set may only be overturned by a statutory declaration made in accordance with the Consolidation Law as per Presidential Decree 445 of 28 December 2000. False statements are punishable by law and may entail criminal liability.

The 2016 Stability Law also established that any higher revenues collected from 2016 to 2018 with respect to 2016 state budget forecasts are to be transferred to Rai in the set proportion of 67% for the year 2016, and 50% for the years 2017 and 2018.

In relation to the amounts reported above:
- licence fees collected by enforcement order refer to licence fees due in 2015 and prior years and paid in 2017 under an enforcement order by households with overdue payments;
- licence fees for prior years – household licences refer to licence fees for 2016 that were paid to the state in 2017 and hence notified only during the course of the year, and to the recalculation of licence fees for prior years.

The mechanism for determining the single television licence fee contemplated by the Consolidation Law for audiovisual and radio media ("separate accounting"), designed to ensure that revenue from licence fees is proportional to the costs incurred by Rai, as certified by an independent auditor, for its Public Service operations, has found a shortfall in such revenue for the period 2005–2016 of €2.6 billion.

Advertising

Revenue from advertising in 2017 amounted to €647.6 million (€698.2 million in 2016). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Television advertising on general-interest channels:		
- air time	408.4	458.8
- promotions, sponsorships and special initiatives	124.6	127.3
- product placements	5.3	5.3
Television advertising on specialist channels	65.1	65.8
Radio advertising	31.6	29.9
Cinema advertising	4.4	3.8
Web advertising	9.2	8.5
Other advertising	0.6	0.7
Third-party quotas	(1.5)	(1.5)
Contingencies	(0.1)	(0.4)
Total revenue from advertising	**647.6**	**698.2**

Revenue from advertising fell by €50.6 million compared to 2016, when the figure was boosted by major sports events (UEFA European Championship and the Summer Olympics).

Other revenue

Other revenue from sales and services in 2017 amounted to €184.2 million (€183.4 million as at 31 December 2016). The figure breaks down as follows.

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Special services under convention	43.9	44.4
Sale of music rights and editions	58.8	60.5
Film and home video distribution	29.4	29.3
Distribution and sale of channels	21.1	20.0
Fees for hosting plants and equipment	32.4	32.4
Sundry services, mainly for institutional purposes	9.5	9.5
Signal diffusion services, rental of circuits, radio links and connections	4.9	5.8
Interactive telephone	0.3	0.7
Production services	0.9	0.7
Revenue from sales	1.5	1.6
Other	1.5	1.5
Third-party quotas	(26.1)	(29.1)
Contingencies	6.1	6.1
Total revenue from sales and services – other revenue	**184.2**	**183.4**

17.2 Other revenue and income

Other revenues and income in 2017 amounted to €15.6 million (€18.2 million in 2016). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Contributions for operating expenses	5.4	9.1
Income from real estate investments and rentals	2.1	2.0
Compensation for damages	3.0	0.7
Contingencies	1.0	1.9
Other	4.1	4.5
Total other revenues and income	**15.6**	**18.2**

17.3 Costs for the purchase of consumables, costs for services and other costs

Costs for the purchase of consumables, costs for services and other costs amounted to a total of €1,033.8 million (€1,151.3 million as at 31 December 2016). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Costs for the purchase of consumables	**13.6**	**13.9**
Contractors	128.0	134.9
Services for programme acquisition and production	212.0	212.6
Travel allowances and expenses and accessory costs for personnel	38.5	41.1
Maintenance, repairs, transport and similar	43.0	45.1
IT system documentation and assistance services	51.3	50.0
Other outsourced services (telephone, supply services, cleaning, postal, insurance etc.)	143.9	160.0
Rental expenses and rentals	91.7	95.1
Recording rights	158.6	257.9
Copyright	104.9	111.1
Contingencies	(7.4)	(14.5)
Cost recoveries and expense refunds	(13.9)	(14.5)
Costs for services	**950.6**	**1,078.8**
Losses for VAT paid on the tax dispute Settlement Concessions	16.8	-
Prizes and winnings	6.6	12.4
Fee to Control Authority	5.2	5.5
TASI/ IMU tax	10.7	10.6
Other indirect taxes and other duties	10.5	11.1
Newspapers, magazines, books and publications	1.7	1.7
Membership fees	3.8	3.7
Fees for user rights to frequencies	10.8	10.3
Losses on disposals	0.5	0.1
Other	3.5	3.8
Contingencies	(0.5)	(0.6)
Other costs	**69.6**	**58.6**
Total costs for the purchase of consumables, services and other costs	**1,033.8**	**1,151.3**

Costs for the purchase of consumables, €13.6 million (€13.9 million as at 31 December 2016), mainly refer to the purchase of sundry production materials for €3.7 million (€4.3 million as at 31 December 2016), technical inventories for €0.9 million (€1.1 million as at 31 December 2016) and other material for €8.5 million (€8.9 million as at 31 December 2016).

The breakdown of costs for services is shown in the table below. The item totalled €950.6 million (€1,078.8 million as at 31 December 2016), net of discounts and rebates obtained, It includes, inter alia, emoluments, indemnities of office and expense refunds paid to directors, for a total of €0.4 million, and to statutory auditors, for a total of €0.2 million. Please note that no member of the Board of Directors and the Board of Statutory Auditors of the Parent Company performed, overlapping, similar jobs in other subsidiaries.

In accordance with Article 2427 (16-bis) of the Civil Code, we report that fees accruing to the year ended 31 December 2017 for services provided by the external auditor amounted to €0.5 million, broken down as follows:
- for annual auditing of accounts: €0.3 million;
- for six-monthly auditing: not significant in millions of Euro;
- for other non-audit services: €0.2 million;

Other costs, totalling €69.6 million (€58.6 million as at 31 December 2016), mainly consisted of prizes and winnings on radio and television competitions, indirect taxes and other duties, fees for user rights to digital television frequencies and other fees and contributions, plus losses for VAT paid on the Settlement Concession entered in the financial statements of Rai Pubblicità.

More specifically, losses for VAT paid on the Settlement Concession, totalling €16.8 million, are fully applicable to the VAT tax dispute resulting from assessment notified to Rai Pubblicità in December 2016. More specifically, due to the applications to settle the tax disputes presented in accordance with Article 11 of Decree Law 50 of 11 April 2017 for mere procedure economy reasons, Rai Pubblicità paid the Inland Revenue the greater VAT amount ascertained plus interest and, solely for the VAT, deemed exercisable pursuant to Article 60, seventh paragraph, of Presidential Decree 633 of 26 October 1972, the right of redress against the "right" negotiation counterparts, identified by the assessment; hence entering trade receivables from customers for the same amount. At the end of the year, Rai Pubblicità, acknowledging the state of objective insolvency of those counterparts, reversed the receivables from the VAT redress by debiting costs for losses on receivables totalling €16.8 million to the Income statement.

Considering the specific situation and resulting interpretation uncertainties over its legal nature, we report that even if the right to redress against the "right" counterparts for the higher VAT paid is not deemed admissible, the item in question would have been a cost for VAT with no recourse. Please note that, in that case, there would have been no change in the cost sustained and its presentation in the financial statements.

In order to specifically establish the legal nature of the tax treatment for the item in question, a formal discussion is in progress with the Inland Revenue.

17.4 HR expenses

Employee costs totalled €983.3 million (€1,031.7 million as at 31 December 2016). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Wages and salaries, and social security costs	888.9	953.2
Employee severance pay	43.8	44.5
Pensions and similar obligations	14.7	14.8
Other	14.7	15.0
HR expenses	**962.1**	**1,027.5**
Costs for redundancy incentives	49.8	28.4
Recovery of expenses	(1.0)	(1.0)
HR expenses capitalised	(20.0)	(17.1)
Other HR expenses	**28.8**	**10.3**
Contingencies and releases of provisions	(7.6)	(6.1)
Total HR expenses	**983.3**	**1,031.7**

The item includes €44.5 million of charges for defined contribution plans and €41.4 million of income from defined benefit plans, net of past benefits, as reported in Note 15.2 "Employee benefits".

Redundancy incentives amounted to €49.8 million (€28.4 million as at 31 December 2016). That figure includes provisions allocated by resolution of the Board of Directors on 29 December 2017 for the extraordinary voluntary redundancy plan for middle managers, office staff and workers and orchestra musicians totalling €40.0 million, the maximum limit approved by the resolution, as well redundancy incentives paid to senior managers.

Five different collective bargaining agreements (CCLs) are applied within the Group: the CCL for middle managers, office staff and workers employed by the companies Rai, Rai Way, Rai Cinema and Rai Com; the CCL for Rai orchestra musicians; the CCL for journalists (CNLG), applied by Rai under the terms and conditions of the "Convention for the Extension of the CNLG to Rai" and the relative Addendum Agreement with Usigrai for journalists; the national CCL for senior managers of manufacturing and service companies and the relative Addendum Agreement between Rai and ADRai; and the CCL for the middle managers and office staff of Rai Pubblicità.

With respect to those agreements, we report that:

- the collective bargaining agreement for middle managers, office staff and workers was renewed, by agreement made on 28 February 2018, for the period 2014–2016 and, on an exceptional basis, for 2017 and 2018;
- the collective bargaining agreement for orchestra musicians expired on 31 December 2013;
- for journalists, on 13 March 2018 Rai – Unindustria Roma and Usigrai-FNSI signed a Convention for the Extension of the National Collective Bargaining Agreement for Journalists; the Rai Usigrai Addendum Agreement expired on 31 December 2013;
- for personnel employed as senior managers, the collective bargaining agreement for the period 1 January 2015 – 31 December 2018 is still in force, while the Rai–ADRai Addendum Agreement for the period 2014–2016 expired on 31 December 2016.
- the collective bargaining agreement for middle managers and office staff of Rai Pubblicità expired on 31 December 2013.

The average number of employees included in the area of consolidation is shown below by employment category.

	31 December 2017			31 December 2016		
	average number TD	**average number TI (1)**	**total**	average number TD	average number TI (1)	total
Managers	0	341	341	0	343	343
Officers/middle managers	1	1,391	1,392	1	1,354	1,355
Journalists	189	1,627	1,816	117	1,709	1,826
Office staff	492	7,747	8,239	579	7,757	8,336
Workers	71	925	996	89	930	1,019
Orchestra musicians and choristers	3	123	126	4	119	123
General Practitioners	-	7	7	-	8	8
	756	**12,161**	**12,917**	**790**	**12,220**	**13,010**
(1) of which integration contracts/apprentices		141			193	

The average number of employees was calculated as the arithmetic mean of the daily number of employees over the reporting period, weighted to account for use of part-time employees. The average number of employees includes personnel on permanent and temporary employment contracts.

17.5 Depreciation, amortisation and write-downs

Depreciation, amortisation and write-downs totalled €576.9 million (€543.4 million in 2016). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Property, plant and equipment:		
Buildings	17.4	18.0
Plant and machinery	76.5	80.2
Fixtures and fittings, tools and other equipment	2.8	2.8
Other assets	5.8	5.6
Total depreciation of property, plant and equipment	**102.5**	**106.6**
Intangible assets:		
Programmes	408.1	381.4
Software	6.2	6.2
Digital terrestrial frequencies	-	1.1
Other intangible assets	0.4	0.3
Total amortisation of intangible assets	**414.7**	**389.0**
Amortisation of real estate investments	**0.3**	**0.3**
Total amortisation and depreciation	**517.5**	**495.9**
Programmes under amortisation	43.8	32.2
Programmes in progress	7.1	11.2
Other intangible assets	3.0	-
Other non-current receivables and assets	2.0	1.1
Trade receivables	1.8	2.6
Current income tax receivables	0.2	-
Other current receivables and assets	1.5	0.4
Total write-downs	**59.4**	**47.5**
Total depreciation, amortisation and write-downs	**576.9**	**543.4**

17.6 Provisions

Net provisions, for €3.2 million (negative for €18.8 million in 2016), are determined by provisions for €9.1 million (€40.6 million in 2016), compensated by absorptions for €12.3 million (€21.8 million in 2016) mainly referred to provisions for risks and charges for disputes of various kinds. Absorptions refer for €6.1 million to adjustment of the provision for fiscal dispute which, because Rai Pubblicità adhered to the aforementioned Settlement Concession (see Note 15.3 "Provisions for risks and charges") had a surplus for the part referred to sanctions.

17.7 Financial income and expenses

Net financial expenses totalled €8.7 million (€18.2 million in 2016). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Financial income		
Interest income from banks	-	0.1
Gains from currency valuation	1.1	0.5
Currency gains realised	0.8	0.1
Income from currency derivatives	0.2	0.4
Default interest on receivables from customers	5.4	-
Other	0.6	1.5
Total financial income	**8.1**	**2.6**
Financial expenses		
Interest expenses due to banks	(2.3)	(2.6)
Interest expenses on bonds	(6.1)	(6.1)
Expenses on rate hedging derivatives	(0.1)	(0.1)
Expenses on exchange hedging derivatives	(0.2)	(0.2)
Losses on currency valuation	(0.9)	(0.9)
Foreign exchange losses realised	-	(0.9)
Interest on employee benefit liabilities	(4.6)	(7.4)
Other	(2.6)	(2.6)
Total financial expenses	**(16.8)**	**(20.8)**
Net financial expenses	**(8.7)**	**(18.2)**

17.8 Earnings from equity investments recognised under the equity method

Earnings from equity investments recognised under the equity method amounted to a negative €0.5 million (negative €0.7 million in 2016). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Euronews SA	(1.1)	(1.5)
San Marino RTV SpA	-	(0.1)
Tivù Srl	0.6	0.9
Total effect of recognition under the equity method	**(0.5)**	**(0.7)**

The breakdown of the change in equity investments recognised under the equity method is reported in Note 12.4 "Equity investments".

17.9 Income tax

Income taxes payable totalled €9.7 million (€27.3 million as at 31 December 2016). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
IRES	(31.8)	(47.0)
IRAP	(7.1)	(8.9)
Total current taxes	**(38.9)**	**(55.9)**
Deferred tax liabilities	2.1	2.6
Deferred tax assets	27.0	26.9
Total deferred taxes	**29.1**	**29.5**
Direct taxes of previous years	0.1	(0.9)
Total tax for the year	**(9.7)**	**(27.3)**

The difference between the theoretical tax rate and the effective tax rate is shown below:

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Gain/(Loss) before tax	24.0	45.4
IRES tax rate	24.0%	27.5%
Theoretical tax gain (expense)	(5.8)	(12.5)
Taxes related to previous years	0.1	(0.9)
Tax differences	3.1	(5.0)
IRAP	(7.1)	(8.9)
Total income taxes	**(9.7)**	**(27.3)**

The item tax differences represents the economic effect, on theoretical taxes for the year, resulting from application of Italian tax rules regulating calculation of the IRES and IRAP taxable base.

18) Other information

18.1 Guarantees

Guarantees provided totalled €70.7 million (€38.4 million as at 31 December 2016). The figure breaks down as follows:

(€/million)	Year ended 31 December 2017			
	Surety guarantees	Other personal guarantees	Collateral	Total
Joint ventures and associates	2.6	-	-	2.6
Other	65.9	-	2.2	68.1
Total	**68.5**	**-**	**2.2**	**70.7**

(€/million)	Year ended 31 December 2016			
	Surety guarantees	Other personal guarantees	Collateral	Total
Joint ventures and associates	2.6	-	-	2.6
Other	35.8	-	-	35.8
Total	**38.4**	**-**	**-**	**38.4**

Guarantees provided included the recognition of an obligation to pay guaranteeing the early repayment of €64.3 million of surplus VAT as at 31 December 2017 (€34.0 million as at 31 December 2016) by subsidiaries, undertaken with Inland Revenue.

The Group has also recognised €447.4 million of guarantees provided by third parties (€400.1 million as at 31 December 2016) on commercial and financial obligations. Those guarantees mainly consist of:

(i) guarantees received from various banks and insurance institutions:
- to guarantee the purchase of goods and services;
- full performance of contracts for the production of radio and television productions;

(ii) guarantees provided by third parties on obligations held by the Group:
- for payables – mainly surety guarantees for the Parent Company on the medium/long term EIB loan;
- on other obligations – mainly surety guarantees provided to Inland Revenue for the Parent Company guaranteeing prize competitions and the refund of VAT credits.

18.2 Commitments

The main commitments, including long-term commitments, connected with products or with technological development and modernisation initiatives and in place at the reporting date are reported in the table below.

(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
Future commitments on:		
Sports broadcasting rights	92.6	161.1
Investments in audiovisual works	251.6	178.4
Rights and services for the production of programmes	56.7	40.8
Technical investments	32.6	39.8
Total commitments	**433.5**	**420.1**

18.3 Contingent liabilities

Group companies, mainly Rai, are party to civil, administrative, labour law and social security lawsuits connected with its ordinary business activities.

Civil and administrative litigation involving the Group is primarily connected with the production and public broadcasting of radio and television programmes. Almost all civil litigation concerns claims for damages, mostly in connection with defamation and infringement of personality rights, while under administrative law usually concern disputes over tender awards in which the equivalent compensation claim is usually a subsidiary application to the main application for the annulment of the tender decision and, in some cases, the award of the contract.

If, on the basis of analyses conducted on such kinds of litigation:
- information is available, at the time of preparation of the financial statements, suggesting it is likely that a liability will arise;
- the amount of the liability can be reasonably estimated, considering the petition made by the applicant; then a relative liability is recognised through the allocation of provisions for legal disputes.

In relation to labour law and social security matters, the Group is a party to a considerable number of lawsuits, mainly concerning claims for reinstatement, applications for investigations into the alleged use of fictitious intermediaries in the procurement of labour, applications for higher level employment grades and categories, compensation claims for alleged demotion and alleged non-fulfilment of social security obligations under employment contracts or collective bargaining agreements. For the purposes of determining the amount of provisions to be allocated, given the large number of pending lawsuits and the consequent difficulty in assessing the contingent liability for each, the cases are subdivided into three categories in relation to their status and any appeal rulings handed down – lawsuits pending in courts of first instance; lawsuits lost on appeal; lawsuits won on appeal. The risk is then estimated for each category by identifying an average value expressed in percentage terms, in order to quantify the amount of provisions to be allocated for legal disputes.

In November 2017, the Tax Police started a tax assessment for intra-community VAT purposes for transactions carried out by Rai Pubblicità in the years from 2012 to 2016, solely with certain parties; for which the company had already provided ample documentation following a search and seizure measure notified in February 2017. Audits conducted on that occasion by Rai Pubblicità with the Forensic Services department of an influential advisory firm, on the administrative and fiscal correctness of transactions, had excluded any billing process anomalies.
At present, no findings of a tax nature have been notified by the officials conducting controls. Therefore, based on the information currently available to the Company, there are no contingent liabilities to be mentioned.

Provisions allocated for legal disputes are reported in Note 15.3 “Provisions for non-current risks and charges”.

Based on the information currently available, and considering the existing provisions for risks, the Group considers amounts allocated to the existing risk provisions as sufficient.

18.4 Transactions with related parties

Transactions between the Parent Company and related parties are reported below, as identified on the basis of the criteria provided by IAS 24 “Related party disclosures” for the years ended 31 December 2017 and 31 December 2016.

Related party dealings are mainly of a commercial and financial nature and involve the following related parties:
- Rai Cinema;
- Rai Com;
- Rai Corporation;
- Rai Pubblicità;
- Rai Way;
- management personnel with strategic Group responsibilities (“Senior Management”);

- other associated companies and joint ventures with which the Group has an interest as indicated in Note 12.4 "Shareholdings"; companies controlled or under the joint control of Senior Management and entities that manage post-employment benefit plans reserved exclusively to Rai Group employees ("other related parties").

Although related party transactions are conducted at arm's length, there is no guarantee that if those transactions were negotiated and pursued with or between third parties, the relative contracts, and the transactions themselves, would stipulate the same terms and conditions.

"Senior management" means key management personnel with strategic responsibilities with the power and direct or indirect responsibility for the planning, management and control of Group business, including therein the members of the Board of Directors of Group companies. For information on emoluments paid to statutory auditors, see Note 17.3 "Costs for the purchase of consumables, costs for services and other costs".

The follow table details the balance sheet totals as at 31 December 2017 and as at 31 December 2016 and the income effects of transactions between the Group and related parties conducted in the years ended 31 December 2017 and 31 December 2016 and obviously excluding those between the Parent Company and its subsidiaries, consolidated applying the comprehensive method.

(€/million)	Senior Management	Other related parties	Total
Current financial assets			
As at 31 December 2017	-	0.5	**0.5**
As at 31 December 2016	-	-	**-**
Current trade receivables			
As at 31 December 2017	-	0.2	**0.2**
As at 31 December 2016	-	0.4	**0.4**
Other current receivables and assets			
As at 31 December 2017	0.2	-	**0.2**
As at 31 December 2016	0.3	-	**0.3**
Employee benefits			
As at 31 December 2017	(5.1)	(14.7)	**(19.8)**
As at 31 December 2016	(6.6)	(15.0)	**(21.6)**
Trade payables			
As at 31 December 2017	-	(4.3)	**(4.3)**
As at 31 December 2016	-	(7.2)	**(7.2)**
Other current payables and liabilities			
As at 31 December 2017	(9.4)	(12.7)	**(22.1)**
As at 31 December 2016	(7.0)	(14.2)	**(21.2)**
Current financial liabilities			
As at 31 December 2017	-	-	**-**
As at 31 December 2016	-	(0.1)	**(0.1)**

(€/million)	Senior Management	Other related parties	Total
Revenue from sales and services			
As at 31 December 2017	-	0.7	**0.7**
As at 31 December 2016	-	0.7	**0.7**
Other revenue and income			
As at 31 December 2017	-	0.1	**0.1**
As at 31 December 2016	-	0.1	**0.1**
Costs for services			
As at 31 December 2017	(0.8)	(10.5)	**(11.3)**
As at 31 December 2016	(0.9)	(9.6)	**(10.5)**
HR expenses			
As at 31 December 2017	(23.1)	(13.8)	**(36.9)**
As at 31 December 2016	(25.8)	(14.0)	**(39.8)**

Reported below is a description of the main agreements in place between the Parent Company and the subsidiaries, associates and joint ventures identified above.

Agreements for the provision of services to Rai

Rai Pubblicità

Rai has an advertising concession agreement in place with Rai Pubblicità, under which the latter has an exclusive concession for the sale of advertising space on radio and general-interest television channels, on free-to-air specialist digital and satellite channels, on the teletext service, on the Rai domain and on other minor media.

Rai Com

Rai has granted a mandate without power of representation to Rai Com for:
a) the sale of user licenses for television, radio and cinema use, for audiovisual use (meaning licences for use on home video and commercial video, etc.), and for multimedia use, including interactive multimedia, and derivative rights;
b) the management of negotiations for framework agreements and/or conventions with central and local, national and international, public and private bodies and institutions;
c) the acquisition and/or production of musical and theatre pieces: serious music, prose and musical editions;
d) the management of ticketing services and the implementation and/or management of interactive telephone initiatives and/or other interactive initiatives;
e) the ideation, development, outlining, stipulation and/or management of projects enabling Rai to participate in Italian and European calls for tenders to receive funding grants or facilitated loans;
f) the negotiation, outlining, formalisation and/or management of sports library contracts, including therein the implementation and/or management of all commercial initiatives contemplated by such contracts;
g) the provision of technical facilities and the execution of commercial agreements designed to raise the value of non-production premises available to Rai (Palazzo Labia);
h) the negotiation, outlining, formalisation and/or management of other partnership agreements with third-party enterprises of a commercial nature and for commercial purposes;
i) operations for the international sale of Rai channels.

Rai Cinema

A specific agreement is in place with Rai Cinema under which the latter has committed to providing Rai with exclusive access to a catalogue of free-to-air showings of audiovisual works acquired in any way by Rai Cinema, whereas Rai has the obligation to purchase exclusively from Rai Cinema the broadcasting rights to showings of free-to-air audiovisual works.

Rai Way

A service agreement is in place between Rai Way and Rai, under which Rai has outsourced to Rai Way, on an exclusive basis, a series of services that enable Rai to:
(i) control transmission and broadcasting, in Italy and around the world, over the MUX assigned to it under applicable law;
(ii) control the fulfilment of its Public Service obligations.

The service agreement also envisages, and governs, the possibility for the parties to negotiate in the future, in the event of new needs for Rai, the provision of additional services, including services for the development of new electronic communications and telecommunications networks, as well as new broadcasting standards and technologies.

Agreements of a financial nature

With the exception of Rai Way, which following its public listing became fully independent financially, a centralised treasury management agreement is in place between Rai and its subsidiaries, involving a bank cash-pooling programme aimed at ensuring coverage of cash needs and the optimisation of cash flow.

In order to hedge the currency risk to which the subsidiary Rai Cinema is exposed, the latter has granted a mandate to Rai to trade foreign currency and financial instruments on its account, in accordance with the operational methods set out in Group policies.

With reference to Rai Way, other agreements in place consist of:
- an intercompany current account agreement, the purpose of which is to provide Rai with the funding needed to settle reciprocal credit and debit positions connected with certain residual payment services envisaged under the service agreement through which Rai has outsourced services to Rai Way;
- a mandate agreement authorising Rai to perform payments and collections connected with the settlement of intercompany accounts payable and receivable, primarily in the context of the netting, through Rai, of credit and debit positions between Group companies (so-called netting activities), excluding therefrom payments for services provided under the service agreement in place and hedging transactions.

Agreements for the provision of services by Rai

Rai provides a series of services to select subsidiaries under specific service agreements concerning, in particular, administrative services, real estate services, IT services, testing services and dubbing services.

Tax consolidation arrangement

The Rai Group has a "national tax consolidation" arrangement in place for IRES tax purposes, as permitted under Articles 117 *et seq.* of the Italian Income Tax Code and governed by Ministerial Decree of 9 June 2004.

The national tax consolidation arrangement, lasting three years, was renewed by the Parent Company Rai for Rai Way, Rai Cinema and Rai Com. For Rai Pubblicità, the option was renewed in the Rai tax return statement for the 2016 tax year. As of the 2017 tax year, the option to join the arrangement will be tacitly renewed without the need for notification.

The tax and equity arrangements between the participating companies are governed by a specific agreement made between the parties, which is updated in the light of relative legislative amendments applicable under the agreement.

Group VAT offsetting

The Company has adopted the procedure contemplated by Ministerial Decree of 13 December 1979, providing implementing rules for the provisions of Article 73, last paragraph, of Presidential Decree 633 of 26 October 1972, for the offsetting of Group VAT.

The option to apply the Group VAT procedure is valid for one year and was exercised by Rai and all its Italian subsidiaries until 31 December 2017. Tax and equity arrangements under the procedure are governed by a specific agreement between the parties.

Other related parties

The Group has trading and financial relations with other related parties. The most significant include the following.

San Marino RTV

An intercompany current account agreement is in place with the Company, under which debits and credits resulting from economic and financial transactions between the parties are transferred to an intercompany current account. Under the agreement, Rai also provides a credit facility of €1 million (€1.4 million as of 30 January 2018), on which the company can draw to cover overdrafts deriving from ordinary business activities. The credit facility is 50% counter-guaranteed by ERAS (the San Marino radio broadcasting body).

In addition, under a radio and television broadcasting agreement between the government of San Marino and the Italian government/Prime Minister's Office, a fixed annual lump sum contribution is made to San Marino RTV through Rai Com.

Tivù

Service agreements are in place, under which:

- Rai provides: electronic programme guide (EPG) processing and management services and editorial and advisory services, as well as satellite transmission capacity to enable the offer of EPG services;
- Tivù provides: an EPG service for the digital terrestrial and satellite platforms and an encryption service.

Auditel

Auditel provides television audience share measurement and data publication services.

Tavolo Editori Radio

Tavolo Editori Radio provides radio audience share measurement and data publication services.

19) Subsequent events

Signing of a National Service Contract between the Ministry for Economic Development (MISE) and Rai

On 11 January 2018, the Board of Directors approved the wording of a new national Service Contract, which was subsequently signed by the Company and the Ministry. The contract came into force on the first day following its publication in the Official Journal on 7 March 2018.

Setting of television licence fees

On 9 November 2018, the decree of the Ministry for Economic Development dated 21 December 2017 was published in the Official Journal, containing provisions for "Special television licence fees for 2018". The decree sets for the current year the amounts of special licence fees for the possession of radio receivers or television sets on non-household premises and of special licence fees for the possession of radio receivers or television sets in cinemas, theatres and comparable premises, in accordance with the amounts set forth in tables 3 and 4 annexed to the ministerial decree of 29 December 2014.

Rai Way

On 16 February 2018, Rai Way notified that it had submitted, with F2i Fondi Italiani per le Infrastrutture SGR SpA ("F2i"), a joint binding offer, subject to certain conditions, for the potential sale of Persidera SpA (hereinafter "Persidera") started by the Shareholders. That offer, then expired, indicated a transaction structure with F2i acquiring ownership of use rights to frequencies currently assigned to Persidera for its DTT multiplex; acquisition by Rai Way of the network infrastructure whilst signing of a multi-year agreement for the supply of broadcasting services.

20) Reconciliation between the Separate and Consolidated Financial Statements

Analysis of the items connecting the Income statement result and shareholders' equity on the Separate Financial Statements and respective Consolidated Financial Statements figures breaks down as follows:

(in €/million)	Result		Shareholders' equity	
	2017	2016	2017	2016
Rai Financial Statements	5.5	4.2	808.4	799.4
Elimination of shareholdings' value against respective equities and of dividends distributed against profits for the year	8.8	13.8	(326.6)	(321.2)
Adjustment deferred taxes on shareholding revaluation	-	-	5.0	5.0
Other consolidation adjustments	-	0.1	(6.7)	(6.6)
Consolidated Financial Statements	14.3	18.1	480.1	476.6
of which Third Parties	19.7	14.6	61.8	56.6

21) Appendix

21.1 Rai equity investments in subsidiaries

The following table reports the equity investments held by Rai in domestic and foreign companies.

The above investments had not changed as at 31 December 2017 compared to the situation as at 31 December 2016.

	Registered office	No. shares/units held	Nominal value (in euros)	Share capital (in €/'000)	Equity interest held %
Subsidiaries:					
Rai Cinema SpA	Rome	38,759,690	5.16	200,000	100.00%
Rai Com SpA	Rome	2,000,000	5.16	10,320	100.00%
Rai Corporation in liquidation	New York (USA)	50,000	10.00 (1)	500 (2)	100.00%
Rai Pubblicità SpA	Turin	100,000	100.00	10,000	100.00%
Rai Way SpA	Rome	176,721,110	- (3)	70,176	64.971%

(1) values in USD;
(2) values in USD/'000;
(3) Ordinary shares with no stated par value.

The market value of Rai Way shares as at 29 December 2017 was €5.08.

21.2 Net financial consolidated indebtedness

Net financial position, as measured in accordance with the recommendations of paragraph 127 of the ESMA document ESMA/2013/319, implementing Regulation (EC) No 809/2004, is reported in the table below:

	(€/million)	**Year ended 31 December 2017**	Year ended 31 December 2016
A.	Cash	0.3	0.3
B.	Other cash equivalents	227.7	85.9
C.	Trading securities	-	-
D.	**Liquidity (A+B+C)**	**228.0**	**86.2**
	Hedging derivatives	-	1.7
	Blocked bank deposits	6.3	5.5
	Receivable from associates	0.5	-
	Loans to personnel	-	0.1
	Other (accruals, deferrals, discounts issue)	0.4	0.1
E.	**Current financial receivables**	**7.2**	**7.4**
F.	Current bank debt	-	(160.1)
G.	Current portion of non-current debt	(40.1)	(40.0)
	Hedging derivatives	(0.5)	-
	Payable to associates	-	(0.1)
	Other (accruals, deferrals, discounts issue)	(0.2)	(0.3)
H.	Other current financial debt	(0.7)	(0.4)
I.	**Current financial debt (F+G+H)**	**(40.8)**	**(200.5)**
J.	**Net current financial position (D+E+I)**	**194.4**	**(106.9)**
K.	Non-current bank loans	(55.3)	(95.3)
L.	Bonds issued	(347.8)	(346.9)
	Payables to other lenders	(0.3)	(0.4)
	Non-current hedging instruments	-	(0.1)
M.	Other non-current payables	(0.3)	(0.5)
N.	**Non-current financial debt (K+L+M)**	**(403.4)**	**(442.7)**
O.	**Net financial indebtedness (J+N)**	**(209.0)**	**(549.6)**

Certification pursuant to article 154-*bis* of Italian Legislative Decree 58/98

The undersigned Mario Orfeo, in the capacity as General Manager, and Massimo Cappelli, in the capacity as Manager in charge of drawing up the corporate accounting documents of Rai Radiotelevisione italiana SpA, also taking into account the provisions of Article 154-*bis*, paragraphs 3 and 4, of Italian Legislative Decree No. 58 of 24 February 1998, hereby attest:

- the adequacy in relation to the characteristics of the Company and
- the actual application

of the administrative and accounting procedures for the preparation of the Consolidated Financial Statements for financial year 2017.

The administrative and accounting procedures and operating practices in place have been applied in a manner consistent with the internal administrative and accounting control system to ensure the achievement of the objectives required by the applicable regulatory framework.

It is also attested that:

- the Consolidated Financial Statements of the Rai Group at 31 December 2017:
  a) have been prepared in accordance with applicable international accounting standards recognised by the European Union pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
  b) correspond to the data in the accounting books and records;
  c) provide a true and fair view of the equity, economic and financial position of the issuer and of all of the companies included in the scope of consolidation.
- the Report on Operations includes a reliable analysis of the trends and results of operations, as well as the situation of the issuer of and of all of the companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Rome, 7 May 2018

Mario Orfeo
General Manager

Massimo Cappelli
Manager in charge of drawing up
the corporate accounting documents

Independent Auditors' Report

Independent auditor's report

To the Shareholders of
RAI – Radiotelevisione italiana SpA

Opinion

We have audited the consolidated financial statements of the RAI Group (the "Group" or "RAI Group"), which comprise the consolidated statement of financial position as of 31 December 2017, the consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated equity, consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of RAI – Radiotelevisione italiana SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C .F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Evaluation of the recoverability of investments in programmes *"Valuation criteria" paragraph "Impairment of non-financial assets" and Note 12.3 "Intangible assets" of the consolidated financial statements as at 31 December 2017* The item "Intangible assets" of the consolidated financial statements of the RAI Group at 31 December 2017 includes programmes totalling Euro 911.4 million (of which Euro 269.9 million as intangible assets under development), which account for 96 per cent of the consolidated intangible assets. Starting from the moment programmes are declared to be ready for use or from the date of efficacy of related rights, if acquired, they are systematically amortised on a straight-line basis over the assets' maximum useful life of 7 years. Such duration represents an estimate of the correlation between revenue from advertising and revenue from TV licence fees. The identification of impairment indicators, if any, of investments in programmes is considered as a key matter of the audit strategy, given the significance of this consolidated financial statement item, its direct correlation with the Group business, as well as the degree of complexity characterising the estimates made by management.	As part of our audit we mainly performed the following procedures aimed at verifying the evaluations made by the Group with reference to investments in programmes: i) discussions with the contact persons of the RAI Group regarding the existence of any impairment indicators; ii) analysis and understanding of the system of internal control over the programme cycle; identification and validation of the operation and efficacy of the relevant controls under this process; iii) comparative analysis and examination by discussions with the corporate functions about the most significant differences compared with the previous year values and the review of documents, on a sample basis, regarding the increases and decreases in the item "programmes"; iv) review, on a sample basis, of the useful life estimated by the Group companies based on the previous years' evidence and the actual possibility of use and, in the circumstances, the possibility to re-broadcast programmes in the future, as well as checking, on a sample basis, the accurate and consistent determination of the amortisation quotas charged to the income statement; v) analysis of the reasonableness of the provision for programme write-down and analysis of any impairment indicators. Finally, our checks also included the analysis of the notes to the consolidated financial statements in order to verify the accuracy and completeness of the disclosures therein.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate RAI – Radiotelevisione italiana SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Rome, 11 June 2018

PricewaterhouseCoopers SpA

Signed by

Pier Luigi Vitelli
(Partner)

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

Rai - Radiotelevisione Italiana SpA

Parent Company

Company name:	Rai - Radiotelevisione italiana SpA
Share Capital:	€242,518,100.00 fully paid-up
Registered Office:	Viale Giuseppe Mazzini, 14 00195 - Rome
Produced by:	Direzione Finanza e Pianificazione
Consulting:	Ergon Com