Consolidated financial statements as at **31 December 2018**

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Financial statements of the Rai Group

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(€/million)	Note	Year ended	
		31 December 2018	31 December 2017
Property, plant and equipment	13.1	1,073.1	1,070.3
Real estate investments	13.2	4.4	4.7
Intangible assets	13.3	919.5	944.9
Equity investments	13.4	6.7	6.9
Non-current financial assets	13.5	3.1	4.6
Deferred tax assets	13.6	-	-
Other non-current assets	13.7	50.2	15.2
Total non-current assets		**2,057.0**	**2,046.6**
Inventory	14.1	2.3	2.4
Trade receivables	14.2	373.3	390.6
Current financial assets	14.3	6.5	7.2
Current income tax receivables	14.4	19.0	21.7
Other current receivables and assets	14.5	121.9	69.6
Cash and cash equivalents	14.6	92.2	228.0
Total current assets		**615.2**	**719.5**
Total assets		**2,672.2**	**2,766.1**
Share capital		242.5	242.5
Reserves		197.2	209.9
Retained earnings (losses)		(50.3)	(34.1)
Total Group shareholders' equity		**389.4**	**418.3**
Third party capital and reserves		42.5	42.2
Retained earnings (losses) attributable to minority interests carried forward		21.1	19.6
Total shareholders' equity attributable to minority interests		**63.6**	**61.8**
Total shareholders' equity	**15**	**453.0**	**480.1**
Non-current financial liabilities	16.1	369.2	403.4
Employee benefits	16.2	434.9	483.1
Provisions for non-current risks and charges	16.3	181.5	185.3
Deferred tax liabilities	16.4	23.5	38.6
Other non-current payables and liabilities	16.5	1.6	2.0
Total non-current liabilities		**1,010.7**	**1,112.4**
Trade payables	17.1	706.0	660.1
Provisions for current risks and charges		0.3	0.3
Current financial liabilities	17.2	16.0	40.8
Current income tax payables	17.3	31.0	30.5
Other current payables and liabilities	17.1	455.2	441.9
Total current liabilities		**1,208.5**	**1,173.6**
Total liabilities		**2,219.2**	**2,286.0**
Total shareholders' equity and liabilities		**2,672.2**	**2,766.1**

CONSOLIDATED INCOME STATEMENT

(€/million)	Note	Year ended	
		31 December 2018	31 December 2017
Revenue from sales and services	18.1	2,565.8	2,608.4
Other revenue and income	18.2	12.2	15.6
Total revenue		**2,578.0**	**2,624.0**
Costs for the purchase of consumables	18.3	(12.8)	(13.6)
Costs for services	18.3	(920.9)	(950.6)
Other costs	18.3	(53.1)	(69.6)
HR expenses	18.4	(1,006.2)	(983.3)
Impairment of financial assets	18.5	(2.7)	-
Depreciation, amortisation and write-downs	18.6	(573.8)	(576.9)
Provisions	18.7	(0.7)	3.2
Total costs		**(2,570.2)**	**(2,590.8)**
EBIT		**7.8**	**33.2**
Financial income	18.8	1.4	8.1
Financial expense	18.8	(15.6)	(16.8)
Earnings from equity investments recognised under the equity method	18.9	0.1	(0.5)
Pre-tax profit/(loss)		**(6.3)**	**24.0**
Income tax	18.10	6.3	(9.7)
Profit/(loss) for the year		**0.0**	**14.3**

of which attributable:		
- to the Group	(21.0)	(5.4)
- to minority interests	21.0	19.7

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€/million)	Year ended	
	31 December 2018	31 December 2017
Profit/(loss) for the year	**0.0**	**14.3**
Items that can be reclassified to the income statement:		
Profit/(loss) on cash flow hedge	(5.9)	0.6
Conversion of balances with currency that is not the Euro	(0.1)	-
Tax effect	0.2	(0.1)
Total	**(5.8)**	**0.5**
Items that cannot be reclassified to the income statement:		
Recalculation of defined-benefit plans	3.0	3.4
Tax effect	(0.1)	(0.1)
Total	**2.9**	**3.3**
Total profit (loss) for the year	**(2.9)**	**18.1**

of which attributable:		
- to the Group	(24.1)	(1.7)
- to minority interests	21.2	19.8

CONSOLIDATED CASH FLOW STATEMENT

(€/million)	Note	Year ended	
		31 December 2018	31 December 2017
Gain (Loss) before tax		**(6.3)**	**24.0**
Adjustments for:			
Depreciation, amortisation and write-downs	18.5 - 18.6	576.5	576.9
Provisions and (issues) to personnel provisions and other provisions	18.7	70.3	6.0
Net financial charges (income)	18.8	14.2	8.7
Earnings from equity investments recognised under the equity method	18.9	(0.1)	0.5
Other non-monetary items		0.2	0.5
Cash flow generated by operating activities before changes in net working capital		**654.8**	**616.6**
Change in inventory	14.1	0.1	0.5
Change in trade receivables	14.2	12.9	244.6
Change in trade payables	17.1	45.9	(26.1)
Change in other assets/ liabilities		(105.4)	221.0
Use of provision for risks	16.3	(31.9)	(45.9)
Payment of employee benefits	16.2	(68.8)	(78.4)
Taxes paid		(5.6)	(12.1)
Net cash flow generated by operating activities		**502.0**	**920.2**
Investments in property, plant and equipment and real estate investments	13.1 - 13.2	(103.8)	(91.7)
Disposal of property, plant and equipment and real estate investments	13.1 - 13.2	0.6	0.9
Investments in intangible assets	13.3	(447.4)	(464.3)
Disposal of intangible assets	13.3	1.0	1.1
Equity investments	13.4	-	(0.2)
Dividends collected		0.4	1.9
Interest collected		0.3	0.1
Change in financial assets	13.5 - 14.3	1.4	(3.8)
Net cash flow generated by investment activity		**(547.5)**	**(556.0)**
Long-term loans taken out	16.1	-	-
Long-term loan redemptions	16.1	(70.2)	(40.2)
(Decrease)/Increase in short-term borrowings and other loans	17.2	5.7	(160.2)
Interest paid		(6.5)	(7.4)
Dividends distributed		(19.3)	(14.6)
Net cash flow generated by financial activities		**(90.3)**	**(222.4)**
Change in cash and cash equivalents		**(135.8)**	**141.8**
Cash and cash equivalents at the beginning of the year	14.6	228.0	86.2
Cash and cash equivalents at the end of the year	**14.6**	**92.2**	**228.0**

STATEMENT OF CHANGES IN EQUITY

(€/million)	Share capital	Legal reserve	Other reserves	Retained earnings (losses)	Group shareholders' equity	Shareholders' equity attributable to minority interests	Total shareholders' Equity (Note 15)
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)
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**
Effects arising from first application of IFRS standards 9 and 15 [1]	**-**	**-**	**(1.5)**	**(3.3)**	**(4.8)**	**(0.1)**	**(4.9)**
Balances as at 1 January 2018	**242.5**	**11.8**	**196.6**	**(37.4)**	**413.5**	**61.7**	**475.2**
Allocation of profit	**-**	**0.2**	**(5.6)**	**5.4**	**-**	**-**	**-**
Distribution of dividends	-	-	-	-	-	(19.3)	(19.3)
Transactions with shareholders	**-**	**-**	**-**	**-**	**-**	**(19.3)**	**(19.3)**
Profit/(loss) for the year	-	-	-	(21.0)	(21.0)	21.0	-
Statement of comprehensive income components	-	-	(5.8)	2.7	(3.1)	0.2	(2.9)
Total profit/(loss) for the year	**-**	**-**	**(5.8)**	**(18.3)**	**(24.1)**	**21.2**	**(2.9)**
Balances as at 31 December 2018	**242.5**	**12.0**	**185.2**	**(50.3)**	**389.4**	**63.6**	**453.0**

[1] The effects arising from first application of accounting standards IFRS 9 and IFRS 15 are explained in Note 6.

Notes to the Consolidated Financial Statements as at 31 December 2018

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 Company and its subsidiaries (jointly the "Group") operate in Italy in the role of general radio and television Public Service. 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.

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 Agreement (hereinafter "Agreement") drawn up with the Ministry of Economic Development for the period 2018-2022, published in the Official Gazette on 7 March 2018.

The Agreement 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:
- the 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 as a Public Interest Entity.

2 Drafting criteria

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. Please note that on 1 January 2018 the accounting standards IFRS 9 "*Financial instruments*" (hereinafter, "IFRS 9") and IFRS 15 "*Revenue from contracts with customers*" (hereinafter "IFRS 15") became applicable. Related to that the Group opted to recognise the effect related to the retrospective redetermination of shareholders' equity values at the start of the current reporting period.

The structure of the Consolidated Financial Statements of the Group provides for:
- the items of the consolidated statement of 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 to the income statement and indicates the economic result integrated with income and expenses which through specific IFRS provision are recognised directly in shareholders' equity;
- 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.

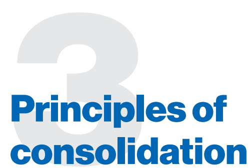
This layout best reflects the elements that led to the Group's economic result of the year, in addition to its financial and capital structure.

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 9 below regarding "Management of financial risks".

Values of items in the financial statements and relative notes, considering their importance, are expressed in millions of Euro, unless indicated otherwise.



3 Principles of consolidation

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.
Companies included in the scope of consolidation as at 31 December 2018 and 31 December 2017 are listed in note 22 "Appendix", which also indicates any change to the scope of consolidation taking place during the year.

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 shareholder's equity and total profit attributable to non-controlling interests are entered in the specific 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 resulting in the following being recognised in the income statement:
- any capital gain/loss calculated as the difference between the consideration received and the corresponding fraction of the consolidated shareholders' equity sold;
- the effect of the revaluation of any residual investment kept to align it with the relative fair value;
- 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 combinations 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. Subsequent changes in the fair value of the potential consideration, of which the amount and payment are dependent on future events, classified as a financial instrument in accordance with IFRS 9, are recognised in the income statement or shareholders' equity as other comprehensive income. Potential considerations that do not come under application of IFRS 9 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 investee companies is calculated attributing their fair value at the acquisition data to the single 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 investment previously held in the entity acquired and the amount paid for the further share. Any difference between the fair value of the equity investment previously held and the relative entry value is attributed to the income statement. When control is assumed, any amounts previously entered in other comprehensive income 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 shareholders’ equity and 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 income statement when the investee is no longer a subsidiary. In those circumstances, the reserve is recognised in the 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 non-controlling interests. 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 Measurement criteria

Below please find a description of the main accounting standards and the most important measurement criteria used to draw up the Consolidated Financial Statements, unchanged compared to those used for the Consolidated Financial Statements as at 31 December 2017; except for what is connected to the new standards IFRS 9 and IFRS 15 coming into force on 1 January 2018. Effects resulting from first-time adoption are illustrated in Note 6 “Effects resulting from the first-time adoption of the accounting standards IFRS 9 and IFRS 15”.

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. In the presence of current obligations for the dismantling, removal of assets and recovery of sites, the registration value includes costs estimated (actualised) to be sustained when the structures are abandoned, recognised as a balancing item to a specific provision (reference is made to Note 16.3 “Provisions for risks and non-current expenses”). 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.

Property, plant and equipment are amortised systematically at constant percentages during their useful economic-technical lifespan, intended as the estimate of the period in which the assets will be used by the company, period starting from the month use of the asset starts or could have started. 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 amendments to the amortisation plan, resulting from a review of the useful life of the tangible asset, of the residual value or the way to obtain economic benefits from the asset, are recognised perspectively.

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	4	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) costs referring to television productions with repeat utility and with contractual use rights exceeding 12 months are capitalised as 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 expected useful life. If, on the other hand, these productions with repeat utility are not yet usable at year-end or rights become available in the future, their costs are deferred as work in progress 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
Rights to use pay TV, video on demand and similar relative to films and series acquired by Rai Cinema	1.5
TV series	3
Rights other than Free TV, pay TV, video on demand related to films and series acquired by Rai Cinema	3
Exploitation rights of football library	4
Cartoons	5
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

In this regard, the estimate of the useful life of programmes with a repeat utility in the following segments had changed compared to 31 December 2017:

- cartoons: from three to five years;
- programmes acquired by Rai Cinema for use through pay TV, video on demand and similar: from 3 to 18 months.

The effects from these changes are highlighted in Note 18.6 "Depreciation, amortisation and other write-downs ".

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 user licences are depreciated in three years starting from the month they become available for use, generally coinciding with the months when use starts.

c) Trademarks are depreciated in ten years from when they are available for use, generally corresponding to the year in which use starts.

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.

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.

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 occur that lead to assuming a reduction in the value of non financial assets, their recoverability is checked comparing the recognition value with the relative recoverable value represented by the higher between fair value, net of disposal expenses, and value in use. 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 the reasons why the write-downs took place no longer exist, the asset's value is restored and the rectification is recognised in the income statement as a revaluation (recovery of value). 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.

Equity investments. Equity investments in joint ventures and in associates are measured applying the equity method.

On applying the equity method, equity investments are initially recognised at purchase cost, attributing any difference between the cost sustained and the interest share in the fair value of the identifiable net assets of the investee in a similar way to what is set forth 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;
- of the effect of the revaluation of any residual investment kept to align it with the relative fair value;
- any amounts recognised in other consolidated comprehensive income relating to the investee for which reclassification to the consolidated income statement is required.

The value of any investment kept, aligned with the relative fair value at the date joint control or considerable influence is lost, represents the new entry value, hence the reference value for the subsequent measurement based on measurement criteria applicable.

After an investment measured applying the equity method, or a share of that investment, is classified as held for sale as it meets the criteria for that classification, the investment, or investment share, is no longer measured by the equity method. Any shares of that investment not classified as held for sale are measured applying the equity method until disposal of the investment share held for sale has been concluded. Any residual share kept after the sale is measured based on the applicable valuation criteria.

The other investments, recognised in non-current assets as they are not held for negotiation, are measured at fair value with balancing entry to the consolidated income statement. When the investments are not listed on a regulated market, where information available to measure fair value is not sufficient, it is felt that the cost represents an adequate estimate.

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.

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 - Financial assets - Other assets. Trade receivables, financial and other assets, considering their contractual characteristics and the business model adopted to manage them, are classified under the following categories: (i) financial assets recognised at amortised cost; (ii) financial assets recognised at fair value with balancing entry in other consolidated comprehensive income; (iii) financial assets recognised at fair value with balancing entry in the consolidated income statement.

Trade receivables, financial and other assets, if they only generate contractual cash flows representing capital and interest and if managed with a business model whose goal is to hold the asset to collect the aforementioned flows, are initially recognised at fair value rectified by directly attributable transaction costs and then recognised applying the amortised cost criterion based on the effective interest rate method (that is the rate that makes the current value of cash flows expected and the recognition value equal, at the time of initial recognition), suitably rectified to take any impairments into account, by recognition in the provisions for write-down of receivables.

Trade receivables, financial and other assets with the aforementioned contractual characteristics, if managed applying a business model whose goal is both to hold the asset to collect its contractual flows represented by the return of capital and interest accrued and to realise the investment through a sale, are recognised after initial entry, at fair value with balancing entry in other consolidated comprehensive income.

Financial assets whose contractual cash flows do not represent payment solely of capital and interest, are recognised at fair value with balancing entry in the consolidated income statement except for derivative instruments used to hedge financial flows, recognised at fair value with balancing entry in other consolidated comprehensive income.

Trade receivables, financial and other assets are included in current assets, except for those with contractual maturity exceeding twelve months compared to the financial statement date, classified in non-current assets.

Impairment of financial assets. At each financial statement reference date, all financial assets that are not those recognised at fair value with balancing entry in the income statement are analysed to check whether there is objective evidence that an asset or group of financial assets has suffered or could suffer a loss in value based on the expected losses model.

The Group measures the expected losses on trade receivables considering their entire duration based on a weighted estimate of the probabilities that those losses could occur. For this purpose, the Group uses quantitative and qualitative information and analyses, based on historical experience, suitably integrated with forecasts on the expected evolution of circumstances. Losses are measured as the current value of all differences between financial flows due contractually and cash flows the Group expects to receive. Actualisation is performed applying the effective interest rate of the financial asset.

For assets that are not trade receivables (financial assets, other assets, cash and cash equivalents), if the credit risk (that is the risk of non compliance along the expected life of the financial instrument) has increased significantly from the date of initial recognition, the Group estimates losses over a time horizon corresponding to the duration of each financial instrument. For financial assets represented by debt securities attributed a low credit risk at the financial statement reference date, losses are estimated over a twelve months time horizon. The Group believes that a debt security has a low credit risk when its rating is equal to or higher than at least one of the following levels: Baa3 for Moody's, BBB- for Standard&Poor's and Fitch.

To calculate whether the credit risk of a financial asset other than trade receivables has increased considerably following initial recognition, the Group uses all pertinent information, considered reasonable, that is adequately supported and available with no costs or excessive efforts needed.

Impairment losses related to financial assets are presented separately in the consolidated income statement.

If the amount of a loss in value of an asset previously recognised drops and that reduction can objectively be connected to an event that occurred after the loss in value was recognised, it is re-credited to the 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 essentially transferred all risks and benefits connected to the asset, transferring its rights to receive cash flows from the asset or taking on a contractual obligation to bestow cash flows received to one or more possible beneficiaries through a contract complying with IFRS 9 requirements (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 factoring transactions is represented by interest on the amounts advanced entered in the income statement pursuant to the accrual principle, and are classified under 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. Elements included in cash and cash equivalents are recognised at fair value.

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

Liabilities

Financial liabilities - Trade payables - Other payables and liabilities. Loans and payables are recognised when the Group becomes part of the relative contractual clauses and are initially recognised at fair value rectified 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. Provisions for risks and charges are those costs and expenses of a certain or probable nature and existence which, at the financial statements closing date are undetermined for amount and/or occurrence 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.

Provisions are recognised at the value represented the best estimate for the amount that the Group will reasonably pay to settle the obligation or to transfer it to third parties at the financial statements closing date. When the financial effect of time going by is significant and the payment dates for the obligations can be estimated reliably, the allocation is decided actualising expected cash flows considering the 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 the Group expects to sustain to implement reorganisation programs are entered in the year when the program is formally defined and the valid expectation that the reorganisation will take place has emerged in parties involved.

The provisions are periodically updated to reflect the changes in the estimates of costs, execution time and the discount rate; estimates reviewed are attributed to the same income statement item as the previous provision. Provisions for risks and charges are actualised when it is possible to reasonably estimate when the monetary outflows will take place. 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 in 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. Costs related to those plans are recognised in the income statement based on the contribution made in the year. 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 consolidated 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.

Derivatives are classified as financial assets or liabilities based on the positive or negative fair value and are classified as “held for trading” and recognised at fair value in 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); e.g. hedging the variability of asset/liability cash flows due to exchange rates fluctuating), the changes in fair value of derivatives considered effective are initially recognised in the equity reserve for the other consolidated comprehensive income statement components (cash flow hedge reserve) and then attributed to the consolidated income statement consistent with the economic effects produced by the transaction hedged. The changes to the fair value of derivatives that cannot be qualified as hedging are recognised in the consolidated income statement.

For currency options, the fair value suspended to the cash flow hedge reserve is formed by the intrinsic value and the time value. The intrinsic value is equal to the amount of the currency optioned (nominal value), multiplied by the difference between the exchange rate of the option exercised ant the market exchange rate at the time of measurement (e.g. end of year exchange rate). In cases where the exchange rate of the option exercised is off market – that is exercising it is not advantageous considering market conditions at the time of measurement – the intrinsic value is null. The time value is a value proportionate to option duration and comes from the difference between the option’s total fair value and the intrinsic value.

For the forward purchase of currency, the fair value suspended for cash flow hedge reserve is represented by the spot component, that is the amount of the currency purchased by the difference between the spot rate of the forward purchase transaction and the market rate recognised on the measurement day.

Fair value measurement

Fair value measurement is performed and relative disclosure is prepared applying IFRS 13 “*Measurement of fair value*”. Fair value is the price that would be received for the sale of an asset or that would be paid to transfer a liability during an ordinary transaction carried out by market operators, at the measurement date.

The measurement of fair value is based on the presumption that the transaction to sell the asset or transfer the liability takes place in the main market; that is in the market where the most volume and transaction levels for the asset or liability take 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 liability is calculated considering the assumptions that market participants would use to define the price of the asset or liability, in the assumption that they act for the 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. Fair value measurements for assets and liabilities are performed using techniques suited to the circumstances and for which there is enough data available, maximising use of observable inputs.

Revenue

Revenues are recognised based on the following five steps:
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.

When each contract is signed with customers, the Group, related to the goods or services promised, identifies as an obligation each promise to transfer goods, a service, a number of goods or services, or a distinct combination of goods and services to a customer.

Revenues are measured in a way that corresponds to the fair value of the fee due, including any variable components, where it is considered highly probable that they will not spill over into the future.

The Group recognises revenues due for each separate obligation when the control of services supplied, rights granted or goods sold is transferred to the purchaser.

Revenues are entered in the financial statements net of any discounts and rebates, payments made to customers which do not correspond to the purchase of distinct goods or services by the Rai Group, and the estimate to customer returns.

The Group recognises a contractual asset or liability based on the fact that the service has already taken place but the relative fee still has to be received; or a contractual liability when, for fees already received, obligations undertaken still have to be fulfilled.

Here below, please find a brief description of the recognition, measurement and valuation process applied for each of the main revenue flows identified.

TV licence fees. As described in Note 1 “General information”, the Parent Company performs, in order to exercise a Public Service, the activities established in the Contract. The fee for the service performed is represented by:
- ordinary licence fees, paid to the State, mainly by debiting the electricity bill, of the owners of a device that can receive the broadcasting signal and paid by the State, for its share, in ways established in the Contract in force in the months of January, May and September; and
- of special licence fees, paid to the Parent Company directly by managers of a commercial activity that makes use of the Public Service available to the public through a device able to receive the broadcasting signal.

As the Parent Company fulfils its obligation to provide a Public Service over time, the corresponding revenues from licence fees are recognised progressively as the broadcasting offer is transmitted.

Advertising. Contracts with advertisers establish that the Parent Company, for a fee, undertakes to circulate the promotional messages of its customers on its multimedia channels. The Group recognises the advertising revenues when the promotional messages are effectively transmitted also considering the fee reductions deemed highly probable.

Special services under convention. This type includes revenues calculated by agreements obliging the Parent Company to provide activities established in the contract for the production, distribution and transmission of audio-visual content abroad to add value to the Italian language, culture and companies as well as the production and distribution of radio and TV transmissions, and audio-visual contents, intended for some linguistic minorities, as well as activities connected to the management of broadcasting licence fees.

The type of obligation, normally satisfied over time, means that the Group acknowledges the relative revenues during the period in which the obligation is fulfilled. Moreover, the fee due is normally commensurate to the duration of productions transmitted.

Sale of music rights and editions. Contracts selling the rights to exploit audio-visual works and music editions normally acknowledge the possibility for customers to use the works granted through different multimedia means, for a limited period of time or for a pre-defined number of passages, in set territorial areas.

User licences normally acknowledge licensees the right to access audio-visual works and music editions as they are when the licence is granted; therefore, recognition of the relative revenue takes place when the licensee is able to start exploiting the rights granted, the consideration due is calculated as a fixed, non-refundable amount. However, when contracts foresee an amount calculated based on the results from the distribution of the right, the revenue is recognised when the results are achieved.

When rights sold have shares owned by third parties, the expense resulting from the share due to them is recognised as a reduction of revenues.

Film and home video distribution. Cinema distribution contracts require material necessary for broadcasting films to be made available to cinema operators for a certain period of time. In exchange, the Group is entitled to receive consideration, which is usually variable and commensurate with the number of tickets sold and the percentage agreed on in the contract for commission on cinema takings. Sometimes, a guaranteed minimum is established (if exceeded, additional income based on ticket sales, is provided), or instead a fixed consideration. The Group recognises revenues associated with film distribution in keeping with the type of contract: (i) for contracts with a guaranteed minimum or fixed consideration, it recognises revenues at the time when control of the material necessary for broadcasting films is transferred to operators, complying with the principle of accrual; (ii) for contracts with a variable consideration, it recognises revenues as tickets are sold and the consideration is accrued.

In the case of contracts for the home video distribution of audiovisual works, the Group usually distributes, on a sale or return basis, DVDs and Blu Ray Discs to its customers, for sale to the public. The Group therefore accrues the right to the consideration for the sale of the aforementioned goods, when the goods are sold to the customer and on an accrual basis.

Generally both types of contracts require operators or retailers (or the chains they belong to) to charge the Group for costs relative to promotional activities carried out at cinemas, sales outlets or in their immediate vicinity. As these activities, in most cases, are not separate from film and home video distribution, the Group records the expense directly deducting it from the consideration accrued, therefore recognising its revenues net of sums deducted for this reason.

Distribution and sale of channels. Contracts for the distribution and sale of channels oblige making the contents of an entire programme available to customers, for a limited period and to be broadcast on platforms and in contractually defined territories.

The type of obligation taken, normally satisfied over time, implies recognition of the relative revenues over the period in which the obligation is fulfilled; regardless of whether the fee could have been quantified as fixed and have been definitely recognised in advance.

Fees for hosting plants and equipment. Revenues from services for hosting plants and equipment are recognised when the customer obtains access to the sites where the plants and equipment are to be located. These revenues are recognised over the entire duration of the hosting contract, therefore regardless of the time-related distribution of the consideration.

Public funding

Public funding, including non-monetary grants measured at fair value, are recognised when it is reasonably certain they will be received and that the Group will comply with all conditions set for their allocation.

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 a difference between the initial book value and the amount 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 revenues 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.

Costs

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 over 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 measurement is at fair value or at the recoverable or collection value, the current exchange rate at the date that value is calculated 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 recognised under current income tax payables net of prepayments made, or under current income tax credits when the net balance is a credit, are calculated based on an estimate of taxable income and in compliance with tax laws, applying the percentages in force at the reference 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, applying the rate in force as at the date on which the temporary difference will be 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. When each year closes, a new measurement is made of whether deferred tax assets can be registered.

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. The offset balance, if receivable, is entered under deferred tax assets, if payable, under 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 of related parties also includes entities that manage the benefit plans following the end of a working relationship solely for Company or Group employees (indicated specifically in Note 19.4 "Transactions with related parties") and key management personnel, that is those with powers and responsibilities, direct or indirect, for the planning, management, control of Rai's and subsidiaries' activities, including Directors.

In compliance with 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, the most significant estimates of the process of drafting the Consolidated Financial Statements are provided below, because they involve making considerable recourse to subjective opinions, assumptions and estimates related to themes which are uncertain owing to their nature. 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 calculated comparing the registration value with the relative recoverable value, represented by the highest between fair value, net of disposal expenses, and the value in use. 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. The amount of the above-mentioned deferred taxes is subordinate to the recoverability determined by attaining future taxable income which is sufficient to absorb the aforesaid tax losses 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 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 16.2 “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. Measurement impacts 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. Therefore, provisions were created to cover all significant liabilities for cases where it is felt that an unfavourable result is probable and it was possible to process a reasonable estimate of expenses resulting from any loss.

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.

Measuring the fair value of financial instruments

The fair value of listed financial instruments is calculated observing prices identifiable directly on the market, whereas for non-listed ones specific measurement techniques are applied that use the greatest number possible of observable market inputs. 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 assumptions made to estimate input data could have effects on the fair value recognised for those instruments in the financial statements.

6 Effects resulting from first-time adoption of the accounting standards IFRS 9 and IFRS 15

When the accounting standards IFRS 9 and IFRS 15 were first applied, the Group opted to recognise the effect related to the retrospective redetermination of shareholders' equity values at the start of the current reporting period. The differences in accounting values resulting from adoption of the new standards were therefore recognised amongst other reserves and amongst the profits carried forward as at 1 January 2018; consequently, balances as at 31 December 2017 are measured and entered in the financial statements as established respectively by the previous accounting standards IAS 39 and IAS 18.

Following the introduction of accounting standard IFRS 9, a new item has been added to the consolidated income statement, the impairment of financial assets. This recognises impairment losses (including reversals) of financial assets in the ampler meaning provided by IAS 32, that includes all assets of contractual origin that give a right to receive cash flows (thus including trade receivables). Related to the right applied to the retrospective redetermination of shareholders' equity values at the start of the current reporting period, reference values as at 31 December 2017 are measured and entered in the financial statements as established by the previous accounting standard IAS 39.

Effects on the consolidated statement of financial position as at 1 January 2018 resulting from application of the accounting standards can be found in the following table:

(€/million)	31 December 2017	IFRS 15	IFRS 9	**1 January 2018**	Notes
Property, plant and equipment	1,070.3	-	-	1,070.3	
Real estate investments	4.7	-	-	4.7	
Intangible assets	944.9	-	-	944.9	
Equity investments	6.9	-	-	6.9	
Non-current financial assets	4.6	-	-	4.6	
Deferred tax assets	-	-	-	-	
Other non-current assets	15.2	-	-	15.2	
Total non-current assets	**2,046.6**	**-**	**-**	**2,046.6**	
Inventory	2.4	-	-	2.4	
Trade receivables	390.6	-	(1.8)	388.8	[1]
Current financial assets	7.2	-	-	7.2	
Current income tax receivables	21.7	-	-	21.7	
Other current receivables and assets	69.6	-	-	69.6	
Cash and cash equivalents	228.0	-	-	228.0	
Total current assets	**719.5**	**-**	**(1.8)**	**717.7**	
Total assets	**2,766.1**	**-**	**(1.8)**	**2,764.3**	
Share capital	242.5	-	-	242.5	
Reserves	209.9	(0.4)	(1.1)	208.4	
Retained earnings (losses)	(34.1)	(2.6)	(0.7)	(37.4)	
Total Group shareholders' equity	**418.3**	**(3.0)**	**(1.8)**	**413.5**	
Third party capital and reserves	42.2	-	-	42.2	
Retained earnings (losses)	19.6	(0.1)	-	19.5	
Total shareholders' equity attributable to minority interests	**61.8**	**(0.1)**	**-**	**61.7**	
Total shareholders' equity	**480.1**	**(3.1)**	**(1.8)**	**475.2**	
Non-current financial liabilities	403.4	-	-	403.4	
Employee benefits	483.1	-	-	483.1	
Provisions for non-current risks and charges	185.3	-	-	185.3	
Deferred tax liabilities	38.6	(1.0)	-	37.6	[2]
Other non-current payables and liabilities	2.0	-	-	2.0	
Total non-current liabilities	**1,112.4**	**(1.0)**	**-**	**1,111.4**	
Trade payables	660.1	-	-	660.1	
Provisions for current risks and charges	0.3	-	-	0.3	
Current financial liabilities	40.8	-	-	40.8	
Current income tax payables	30.5	-	-	30.5	
Other current payables and liabilities	441.9	4.1	-	446.0	[2]
Total current liabilities	**1,173.6**	**4.1**	**-**	**1,177.7**	
Total liabilities	**2,286.0**	**3.1**	**-**	**2,289.1**	
Total shareholders' equity and liabilities	**2,766.1**	**-**	**(1.8)**	**2,764.3**	

[1] Increase in the provision for bad debts through application of the impairment model based on the expected loss.
[2] Effects arising from a different time distribution of revenues relative to advertising and fees for hosting plants and equipment.

Effects on initial shareholders' equity are registered in the following table:

(€/million)	Share capital	Legal reserve	Other reserves	Retained earnings (losses)	Group shareholders' equity	Shareholders' equity attributable to minority interests	Total shareholders' equity	Notes
Balance as at 31 December 2017	**242.5**	**11.8**	**198.1**	**(34.1)**	**418.3**	**61.8**	**480.1**	
Effects resulting from application of the new standards								
IFRS 15	-	-	(0.4)	(2.6)	(3.0)	(0.1)	**(3.1)**	[1]
IFRS 9	-	-	(1.1)	(0.7)	(1.8)	-	**(1.8)**	[2]
Balance as at 1 January 2018	**242.5**	**11.8**	**196.6**	**(37.4)**	**413.5**	**61.7**	**475.2**	

[1] Effect arising from a different time distribution of revenues relative to advertising and fees for hosting plants and equipment.
[2] Effect caused by the increase in the provision for bad debts through application of the impairment model based on the expected loss.

Application of the new standards compared to what is established by the previous standards IAS 39 and IAS 18 causes the following effects on the consolidated income statement as at 31 December 2018.

(€/million)	**Year ended 31 December 2018**	IFRS 15 [1]	IFRS 9 [1]	**Year ended 31 December 2018 with application of the previous standards IAS 18 and IAS 39**	Notes
Revenue from sales and services	2,565.8	1.8	-	2,567.6	[2] [3]
Other revenue and income	12.2	-	-	12.2	
Total revenue	**2,578.0**	**1.8**	**-**	**2,579.8**	
Costs for the purchase of consumables	(12.8)	-	-	(12.8)	
Costs for services	(920.9)	(3.1)	-	(924.0)	[3]
Other costs	(53.1)	-	-	(53.1)	
HR expenses	(1,006.2)	-	-	(1,006.2)	
Impairment of financial assets	(2.7)	-	2.7	-	[4]
Depreciation, amortisation and other write-downs	(573.8)	-	(2.6)	(576.4)	[4]
Provisions	(0.7)	-	-	(0.7)	
Total costs	**(2,570.2)**	**(3.1)**	**0.1**	**(2,573.2)**	
EBIT	**7.8**	**(1.3)**	**0.1**	**6.6**	
Financial income	1.4	-	-	1.4	
Financial expense	(15.6)	-	-	(15.6)	
Result of investments measured with the equity method	0.1	-	-	0.1	
Pre-tax profit/(loss)	**(6.3)**	**(1.3)**	**0.1**	**(7.5)**	
Income tax	6.3	0.9	-	7.2	
Result for the year - Profit (loss)	**0.0**	**(0.4)**	**0.1**	**(0.3)**	

[1] Effects arising from the adoption of the new standards IFRS 15 and IFRS 9 replacing the previous standards IAS 18 and IAS 39.
[2] Effects arising from a different time distribution of revenues relative to advertising and fees for hosting plants and equipment.
[3] Effects arising from the reclassification of costs, with a reduction in revenues, for services charged by customers functionally related to the services provided.
[4] Increase in allocations to the provision for bad debts, for adoption of the impairment model based on the expected loss and reclassification of the item to depreciation, amortisation and other write-downs (formerly depreciation, amortisation and write-downs).

6.1 First-time adoption of accounting standard IFRS 9

Classification of financial assets

The IFRS 9 accounting standard foresees that the entity check both the business model related to management of financial assets and the contractual characteristics of cash flows and, based on that analysis, classify them consistently.

When the financial asset is first recognised, if not designated as a financial asset measured at fair value with balancing entry in the income statement, it is classified as:

- asset at amortised cost, if managed based on a business model whose goal is to hold the asset to collect contractual flows and the relative contractual terms foresee allocation of financial flows represented solely by repayment of capital and by interest accrued on residual capital;
- asset measured at fair value with balancing entry in the other comprehensive income statement components, if managed based on a business model whose goal is to hold the asset to collect contractual flows, to realise the investment through the sale and the relative contractual terms foresee allocation of financial flows represented solely by repayment of capital and by interest accrued on residual capital.

When a shareholding investment not held for trading is first recognised, the entity may irrevocably choose to present the subsequent changes in fair value in the other comprehensive income statement components. This choice investment by investment.

The category of financial assets measured at fair value with balancing entry in the income statement includes all derivative instruments, except for those designated as hedging in a report on hedging the change risk of financial flows.

Considering the above, the following table compares the Group's financial assets classified in compliance with IFRS 9 categories and according to what was previous established by IAS 39. Please note that the new classification did not cause and effects on the value of financial assets as at 1 January 2018.

	Previous classification adopted in compliance with IAS 39	New classification adopted in compliance with IFRS 9
Trade receivables	Receivables and loans	Assets at amortised cost
Current financial assets (a)	Receivables and loans	Assets at amortised cost
Cash and cash equivalents	Receivables and loans	Assets at amortised cost
Non-current financial assets (a)	Receivables and loans	Assets at amortised cost
Debt securities	Financial assets held till maturity	Assets at amortised cost
Hedging financial tools ***- Interest Rate Swap Forward Start***	Hedging financial tools	Financial assets measured at fair value with balancing entry in the other components of the comprehensive result
Equity investments in other companies	Financial assets measured at fair value with balancing entry in comprehensive income statement components (b)	Investments designated at fair value with balancing entry in the income statement (c)

(a) Excluding debt securities and hedging financial derivatives.
(b) For non-listed equity investments and whose fair value could not estimated reliably, they were recognised at cost rectified for loss of value.
(c) For investments in non-listed companies, if information available to measure fair value is not sufficient, it is felt that the cost represents an adequate estimate.

The item debt securities is entirely made up of government bonds expiring in May 2021, guaranteeing the Agreement and special services under convention with the State and are classified amongst assets at amortised cost because Rai intends to hold them until maturity to collect cash flows formed solely by payment of interest and capital.

The following table illustrates the effects as at 1 January 2018 from classification of financial assets and liabilities based on criteria set forth in IFRS 9:

(€/million)

IFRS 9 classification / IAS 39 classification	Assets and liabilities at amortised cost	Financial assets and liabilities at fair value with a balancing entry recognised to the income statement	Financial assets and liabilities measured at fair value with balancing entry in the other components of the comprehensive result	Total financial assets and liabilities
Assets				
Receivables and loans	628.4	-	-	628.4
Financial assets held for sale	-	-	-	-
Financial assets and liabilities at fair value with balancing entry in the income statement	-	-	-	-
Hedging financial instruments	-	-	1.2	1.2
Total financial assets	**628.4**	**-**	**1.2**	**629.6**
Liabilities				
Receivables and loans	(1,103.8)	-	-	(1,103.8)
Financial assets and liabilities at fair value with balancing entry in the income statement	-	(0.5)	-	(0.5)
Hedging financial instruments	-	-	-	-
Total financial liabilities	**(1,103.8)**	**(0.5)**	**-**	**(1,104.3)**

Hedging relations

All hedging relations designated pursuant to IAS 39 as at 31 December 2017 satisfy the criterion to be recognised as hedging operations also in compliance with IFRS 9 as at 1 January 2018 so are considered as a continuation of the pre-existing hedging relations.

Following adoption of IFRS 9, the aligned time value of the optional structures of derivatives is registered separately as a hedging cost and recognised amongst other comprehensive income, to be accumulated in a reserve as “hedging cost” instead of being immediately recognised in the consolidated income statement, based on the previous standard IAS 39. That change had no significant effects as at 1 January 2018.

For a description of the management strategies and targets for risks being hedged, please refer to Note 9 “Management of financial risks”.

Reduction in value of financial assets

IFRS 9 replaces the “sustained loss” impairment model in IAS 39 “*Financial instruments: recognition and measurement*” with an “expected loss” model. The new model is applied to financial assets measured at amortised cost and to investments in debt instruments measured at fair value with balancing entry in the other components of the comprehensive income statement, but not to investments in instruments representing capital.

The Group measures the expected losses in trade receivables and on the other financial assets using criteria described in Note 4 “Measurement criteria”.

Impairment losses related to financial assets are presented separately in the consolidated income statement.

Application of the standard only caused effects on trade receivables resulting from the measurement of the loss in value based on expected losses.

With reference to 1 January 2018, the Group determined higher write-downs for trade receivables for a total of €1.8 million.

6.2 First-time adoption of accounting standard IFRS 15

Effects on shareholders' equity as at 1 January 2018, from the application of IFRS 15, amounted to €3.1 million due to the different time distribution of advertising revenues and revenues relative to fees for hosting plant and equipment, net of the tax component.

For the method used to recognise revenues, please refer to the Note 4 "Measurement criteria".

7 Recently issued accounting standards

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

- International accounting standard IFRS 16 "*Leasing*" (hereinafter "IFRS 16") was approved with Regulation 2017/1986 issued by the European Commission on 31 October 2017. IFRS 16 replaces IAS 17 "*Leases*" and relative interpretations (IFRIC 4 "*Decide whether an agreement contains a lease*", SIC 15 "*Operating leases—Incentives*" and SIC 27 "*Measurement of the substance of transactions in the legal form of lease*").

  IFRS 16 establishes that all leases, established as contracts attributing a right to use an identified or identifiable asset, for a certain period of time in exchange for a fee, be recognised in the financial statements of the lessee by recognising a liability in the statement of financial position, represented by the current value of future instalments, calculated using the implicit lease interest rate or the marginal financing rate of the lessee is the lease's implicit interest rate is not easy to calculate, with contextual recognition in assets of the corresponding "lease use right". Therefore, the lessee will recognise depreciation for the use right and interest accrued on the liability In the income statement, in place of the operating lease instalments recognised in costs for services based on IAS 17 in force until 2018. In the cash flow statement, the payment of instalments repaying the aforementioned liability will be presented in cash flows from financing therefore, referred to leases classified as operating leases in compliance with IAS 17, application of IFRS 16 will imply a change to the net operating cash flow and the net cash flow from financing. IFRS 16 therefore exceeds, in the lessee's statement, the previous distinction between operating and financial leases. However, in the lessor's statement, both the distinction between operating and financial lease is maintained as is the accounting established in IAS 17. IFRS 16 is applied in a retrospective manner as of 1 January 2019.

  The audit carried out by the Group highlighted inclusion, applying the standard, of the following contract types:
  - property leases;
  - car rentals.

  The Group intends opting for the principle of continuing to recognise payments due for short-term leases (of less than 12 months) and for leases for which the underlying asset is of modest value, as costs.

  At the date of first-time adoption, the Group intends to opt:

  - to not re-examine each lease in force as at 1 January 2019, applying IFRS 16 solely to those previously identified as leases (ex IAS 17 and IFRIC 4);
  - to check recoverability of assets for right of use as at 1 January 2019 based on the measurement, in these financial statements, related to the high cost of leases in compliance with provisions in IAS 37;
  - not to assimilate, in the switch-over stage, leases with a residual duration as at 1 January 2019 of less than 12 months to short term ones;
  - to adopt the practical expedient, granted by the standard, to apply the so-called simplified retrospective method with the measurement, for leases previously classified as operating, of the payable for lease and of the corresponding right of value in use measured on remaining contractual instalments at the switch-over date; actualised based on the marginal loan rate applicable as at 1 January 2019 , that is the interest rate the Group would have paid to implement a loan transaction with similar cash profile and the same collateral guarantees of the lease being measured (so-called Incremental Borrowing Rate or Incremental rate).

The main impacts on the Consolidated Financial Statements can be summed up as follows:

- consolidated statement of financial position: greater non-current assets for registration of the “lease use rights” for an amount quantifiable as at 1 January 2019 in €87.2 million and of “lease liabilities” for an amount quantifiable as at 1 January 2019 in €86.8 million. The difference between the two values is caused by advances paid in 2018 for contractual instalments at the turn of the two years;
- consolidated income statement: different type, quantification, qualification and classification of costs (amortisation of the “lease use rights” in the row “amortisation and other write-downs” and “interest expense for leases” in the row “financial expenses” compared to the previous classification of costs for leases and rentals in the row “costs for services”) with resulting positive impact on gross operating profitability. Furthermore, the combination between amortisation in constant percentages of lease use rights and the effective interest rate method applied to lease payables imply compared to IAS 17, higher expenses in the income statement in the first lease years and decreasing expenses in the last ones.

The above quantification could change due to fine tuning the measurement process when IFRS 16 is first applied, in 2019 financial reports.

- Regulation 2018/498 issued by the European Commission on 22 March 2018 approved the amendments to the international accounting standard IFRS 9 “*Financial instruments – Early payment elements with negative compensation*”. Those amendments aim to clarify the classification of certain financial assets repayable early. These amendments are effective starting from the years beginning on or after 1 January 2019, allowing early application.
  The Group estimated that the above change will have no impact on its Consolidated Financial Statements, since the cases it regulates are not applicable to the Group situation.
- Regulation 2018/1595 issued by the European Commission on 23 October 2018 approved the IFRIC 23 interpretation “*Uncertainty over treatment for income tax purposes*”.
  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 not clear.
  The provisions of IFRIC 23 are effective starting from the years beginning on or after 1 January 2019.
  The Group assessed that above change will have no specific impacts on the Consolidated Financial Statements.

Accounting principles not yet approved by the European Union

- On 18 May 2017, the IASB issued IFRS 17 “*Insurance Contracts*”, that regulates the accounting treatment of insurance contracts issued and re-insurance contracts held. The provisions of IFRS 17 are effective starting from the years beginning on or after 1 January 2021.
- 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: a company considers all the consequences of income taxes resulting from the 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.
- On 7 February 2018 the IASB issued the document “*Amendments to IAS 19: Plan Amendment, Curtailment or Settlement*”.
  The amendments specify that when an entity recalculates its net liabilities (assets) for defined benefit plans after a plan amendment, reduction or regulation, it has to use the updated actuarial hypotheses to calculate the cost of the current service and the net interest for the remaining

part of the annual reference period. These amendments are effective starting from the years beginning on or after 1 January 2019.

- On 29 March 2018, the IASB issued the document "*Amendments to References to the Conceptual Framework in IFRS Standards*". The document's purpose is to update, in existing standards, references to and mentions of the existing version on the conceptual framework or to the version that was replace in 2010 so that reference is made to the updated conceptual framework. These amendments are effective starting from the years beginning on or after 1 January 2020.
- On 22 October 2018, the IASB issued the document "*Amendments to IFRS 3 Business Combination*". The objective is to improve application of the definition of business in order to solve difficulties arising practically when an entity decides whether to acquire an asset or group of assets. These amendments are effective starting from the years beginning on or after 1 January 2020. Early application is allowed.
- On 31 October 2018, the IASB issued the document "*Amendments to IAS 1 and IAS 8: Definition of Material*". Amendment objectives are to clarify definition of "materiality" including a guide which had been described elsewhere in IFRS standards until now; align the definition used in the conceptual framework with that of the IFRS themselves and improve explanations accompanying the definition. These amendments are effective starting from the years beginning on or after 1 January 2020. Early application is allowed.

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

8 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 for the Group coincides with the Parent 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.

9 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.

9.1 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.

When managing market risk, the Group uses the following derivative instruments:
- Interest rate swap to hedge exposure to interest rate risk;
- forward currency purchase options to hedge exposure to the exchange risk.

Details of derivatives existing at the financial statements' data can be found in the following table:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Non-current assets		
Interest rate swap	-	1.2
	-	**1.2**
Current assets		
Options on currencies	0.3	-
Forward purchases of currency	0.3	-
	0.6	**-**
Non-current liabilities		
Interest rate swap	5.1	-
	5.1	**-**
Current liabilities		
Options on currencies	-	0.4
Forward purchases of currency	-	0.1
	-	**0.5**

Based on the policies adopted, derivatives may be used solely to hedge financial flows; use for speculative purposes is not permitted.

Further information on recognition of derivatives in financial statements and on measurement of the relative fair value are provided in Note 4 "Measurement criteria - Financial derivatives", in Note 5 "Use of estimates - Measurement of the fair value of financial instruments" and Note 11 "Measurement of fair value".

The change to the spot forward purchase component (that is the change to spot exchange rates) and to exchange rate options are suspended, at the financial statement date, in the cash flow hedge reserve until recognition of the right or asset being hedged. The component linked to the time of forward purchase is registered in the income statement during the hedging duration.

The following table illustrates movements of the cash flow hedge provision separately by financial instrument category:

(€/million)	Cash flow hedge reserve			
	Options on currencies (*)	Forward purchases of currency	Interest rate swap	Total cash flow hedge reserve
Balance as at 31 December 2017	**-**	**-**	**0.8**	**0.8**
Change in fair value (**)	0.2	0.2	(6.3)	(5.9)
Reclassification from OCI to financial income and expense		-	0.1	0.1
Deferred taxes	-	(0.1)	0.3	0.2
Balance as at 31 December 2018	**0.2**	**0.1**	**(5.1)**	**(4.8)**

(*) Includes the time value recognised as at 31 December 2018 for a non-significant value in millions of Euro.
(**) Intrinsic value for options on currencies and the spot component for forward purchases.

Control of effectiveness

The effectiveness of hedging is decided when hedging starts and is re-examined periodically to check the economic ratio between the element hedged and the hedging instrument.

Effectiveness is formally proven with qualitative criteria related to the important terms (nominal amount, expiry, underlying, currency and reference rate) of the hedged element, aligned with the hedging instrument. In this situation, the hedging instrument's value evolves in the opposite direction to the element hedged and there is a clear economic ratio between the two.

The possible sources of ineffectiveness are identified in the following elements:
- significant changes in the amount and timing of payment of contracts in USD being hedged;
- significant changes in the credit risk of counterparts (rating).

The ratio between quantity of element hedged and the relative instrument designated to hedge it (hedge ratio) is always 1:1.

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 policies require 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 and options on rates.

As at 31 December 2018, 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.

The Company has four Interest Rate Swap Forward Start contracts for a total nominal amount of €350 million with start date May 2020 and validity for the following 5 years, to hedge the risk of an increase in interest rates when the debenture bond issued expires and the resulting need to refinance.

Hedging effectiveness was checked with reference to an hypothetical derivative with the same characteristics in terms of nominal, expiry, reference rate, considering the characteristics of the future bond that is considered highly likely to be issued. The fair value of those transactions as at 31 December 2018 is suspended in a specific cash flow hedge fund, with effect, net of the tax component, on total profit/(loss) for the year.

As a consequence of the early repayment of the amortising loan, Rai Way closed the two interest rate swap hedging contracts with a negligible economic effect.

Here below is a table summing up the financial effects of hedging instruments in place as at 31 December 2018:

(€/million)	**Year ended 31 December 2018** Interest rate swap
Book value	(5.1)
Nominal amount	350.0
Interest Rate Swap Forward Start date	20 May
Change in fair value of the hedging instruments	(6.3)
Change in value of the element hedged	6.3
Fixed average rate at maturity	0.8855%

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 (for the latter only for 2017). As at 31 December 2017 the rate curve on short-term maturity is negative, so the rate reduction shift had only been applied for the Interest rate swap contracts.

(€/million)	Interest rate change	Change in economic result before tax effect	Change to cash flow hedge reserve
Year ended 31 December 2018	+50 bp.	0.5	7.7
	-50 bp.	-0.5	-9.0
Year ended 31 December 2017	+50 bp.	1.0	9.0
	-50 bp.	-	-9.0

Exchange rate risk

The Group's exchange risk mainly refers to exposure in USD originating from the purchase of film and TV rights by Rai Cinema SpA (hereinafter "Rai Cinema"). During 2018, these commitments generated payments for about USD 150 million (USD 180 million in 2017). 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 €6 million.

As at 31 December 2018 hedging transactions were only active for Rai Cinema.

Exchange rate risk is managed starting from the date the trade commitment is signed, which may also be 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 international best practices, the aim being to minimise risk, pursued through the active monitoring of exposure and the adoption of hedging strategies. 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 breakdown of the assets and liabilities in currency other than the Euro recognised in the financial statements is provided below:

(€/million)	**Year ended 31 December 2018**		Year ended 31 December 2017	
	USD	Other foreign currencies	USD	Other foreign currencies
Trade receivables	4.4	1.0	3.7	0.1
Trade payables (*)	(8.0)	(2.0)	(18.5)	(1.9)
Cash on hand	4.1	-	1.6	0.1
Other non-current assets	-	0.1	-	0.1
Other current receivables and assets	0.1	-	0.1	-
Other current payables and liabilities	-	(0.1)	-	(0.1)
Current financial liabilities	-	-	-	-

(*) amount hedged by derivatives for a nominal value of USD 1.9 million as at 31 December 2018 and USD 13.5 million as at 31 December 2017.

Here below is a table summing up the financial effects of hedging instruments in place as at 31 December 2018, for invoices, assessments or binding commitments of Rai Cinema:

(€/million)	**Year ended 31 December 2018**	
	Options on currencies	Forward purchases of currency
Book value	0.3	0.3
Notional amount in USD	8.5	12.7
Maturity of operations	Mar 19-Dec 19	Apr 20-Dec 19
Change in fair value of the hedging instruments (*)	0.2	0.2
Change in value of the hedged item	(0.2)	(0.2)
Average weighted exchange rate for the year	1.19	1.21

(*) Intrinsic value for options on currencies and the spot component for forward purchases.

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 2018 and as at 31 December 2017 was conducted on credit and debt positions in currency, non-hedged credit and debt positions, on 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 net positions not hedged by the exchange risk; whereas the cash flow hedge reserve includes the effective portion of hedging on commitments already undertaken but with no impact on equity in the Consolidated Financial Statements, and is only referred to the subsidiary Rai Cinema.

(€/million)	Eur/USD exchange rate	Change in Eur/USD exchange rate	Recalculated Eur/USD exchange rate	Change in economic result before tax effect	Change in cash flow hedge reserve
Year ended 31 December 2018	1.1450	-10%	1.0305	0.2	1.8
		+10%	1.2595	-0.2	-1.3
Year ended 31 December 2017	1.1993	-10%	1.0794	-0.1	0.3
		+10%	1.3192	0.2	-0.4

9.2 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.

Moreover, the Group measures the expected losses on trade receivables considering their entire duration based on a weighted estimate of the probabilities that those losses could occur. For this purpose, the Group uses historical experience, suitably integrated with forecasts on the expected evolution of circumstances. If the conditions exist, losses are measured as the current value of all differences between financial flows due contractually and cash flows the Group expects to receive. Actualisation is performed applying the effective interest rate of the financial asset.

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

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Invoices to be issued	**159.6**	**106.2**
falling due	135.7	199.2
expired from 0 to 90 days	71.1	64.3
expired from 91 to 180 days	7.3	21.1
expired over 180 days	46.1	45.0
Invoices issued	**260.2**	**329.6**
Total trade receivables	**419.8**	**435.8**

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 2018 and 2017.

9.3 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 the Group's 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.

As regards the medium/long-term, the financial structure of the Group consists of a bond issue with maturity date in May 2020 for €350 million (please refer to Note 16.1 "Non-current financial liabilities and current portions of non-current financial liabilities" for further details) and an amortising loan maturing in 2021, from the European Investment Bank (hereinafter "EIB") for the project to implement terrestrial digital technology for €25 million, both in favour of Rai.

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 €434 million and a five-year revolving line with a pool of banks totalling €270 million, undrawn as at 31 December 2018.

The revolving line requires that the following Consolidated Financial Statements parametric/equity ratio be met and it was met in full (0.63) at the reporting date:

- 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 2018, maturing in September in 2019.

The cash situation is constantly monitored with a financial forecasting process that highlights any financial critical issues considerably in advance so that expedient measures can be taken.

The following table includes the analysis by due date of the financial liabilities as at 31 December 2018 and 31 December 2017. The balances presented are non-discounted contractual amounts, except for the currency derivatives, for which the amounts shown are at their fair value since this is indicative of the effect on the cash flows during the specific period. 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 2018**				Year ended 31 December 2017			
	< 1 year	**2-5 years**	**>5 years**	**Total**	< 1 year	2-5 years	>5 years	Total
Trade payables and other liabilities:								
Trade payables	706.0	-	-	**706.0**	660.1	-	-	**660.1**
Other payables and liabilities	455.2	1.3	0.2	**456.7**	441.9	1.7	0.3	**443.9**
Medium/long-term financial liabilities:								
Medium/long-term loans	10.6	15.8	-	**26.4**	41.4	56.6	-	**98.0**
Bonds	5.3	355.2	-	**360.5**	5.3	360.5	-	**365.8**
Short-term financial liabilities:								
Payables for financial leases	5.7	-	-	**5.7**	-	-	-	**-**
Payable to associates	0.1	-	-	**0.1**	-	-	-	**-**
Derivative instruments:								
Currency derivatives	-	-	-	**-**	0.5	-	-	**(0.5)**
Interest rate derivatives - non-discounted cash flows	-	5.6	-	**5.6**	-	-	-	**-**

10 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 total liabilities including shareholders' equity is presented in the following table.

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Shareholders' equity	453.0	480.1
Total shareholders' equity and liabilities	2,672.2	2,766.1
Ratio	17.0%	17.4%

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

11 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 calculation (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. For more information on the derivative instruments (assets and liabilities), please refer to Notes 14.3 "Current financial assets" and 17.2 "Current financial liabilities".

(€/million)	**Year ended as at 31 December 2018**		
Description	Level 1	Level 2	Level 3
Derivatives on exchange rates	-	0.6	-
Derivatives on interest rates	-	(5.1)	-

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

12 Reconciliation between the classes of financial assets and liabilities and types of financial assets and liabilities

To complete disclosure on financial risks, the reconciliation between classes of financial assets and liabilities and types of financial assets and liabilities identified based on IFRS 7 requirements is provided below:

Year ended 31 December 2018 (€/million)	Assets and liabilities at amortised cost	Financial assets and liabilities at fair value with a balancing entry recognised to the income statement	Financial assets and liabilities measured at fair value with balancing entry in other comprehensive income	Total financial assets and liabilities	Notes (***)
Assets					
Trade receivables (*)	377.4	-	-	377.4	13.7 - 14.2
Current financial assets	5.9	0.2	0.4	6.5	14.3
Cash and cash equivalents	92.2	-	-	92.2	14.6
Non-current financial assets	3.1	-	-	3.1	13.5
Equity investments in other companies (**)	-	6.7	-	6.7	13.4
Total financial assets	**478.6**	**6.9**	**0.4**	**485.9**	
Liabilities					
Trade payables	(706.0)	-	-	(706.0)	17.1
Current financial liabilities	(10.9)	-	(5.1)	(16.0)	17.2
Non-current financial liabilities	(369.2)	-	-	(369.2)	16.1
Total financial liabilities	**(1,086.1)**	**-**	**(5.1)**	**(1,091.2)**	

(*) The item includes the value of the trade receivables allocated to other non-current assets.
(**) When the investments are not listed on a regulated market, where information available to measure fair value is not sufficient, it is felt that the cost represents an adequate estimate.
(***) The figures provided below indicate the paragraphs within the Notes in which the assets and liabilities shown are described in detail.

Year ended 31 December 2017 (€/million)	Receivables and loans	Financial assets held for sale	Financial assets and liabilities at fair value with balancing entry recognised to the income statement	Hedging instruments	Total financial assets and liabilities	Notes (**)
Assets						
Trade receivables (*)	391.6	-	-	-	391.6	13.7 - 14.2
Current financial assets	7.2	-	-	-	7.2	14.3
Cash and cash equivalents	228.0	-	-	-	228.0	14.6
Non-current financial assets	3.4	-	-	1.2	4.6	13.5
Total financial assets	**630.2**	**-**	**-**	**1.2**	**631.4**	
Liabilities						
Trade payables	(660.1)	-	-	-	(660.1)	17.1
Current financial liabilities	(0.2)	-	(0.5)	-	(0.7)	17.2
Current portion of medium/long-term loans	(40.1)	-	-	-	(40.1)	17.2
Non-current financial liabilities	(403.4)	-	-	-	(403.4)	16.1
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 within the Notes in which the assets and liabilities shown are described in detail.

13 Non-current assets

13.1 Property, plant and equipment

Property, plant and equipment, which amounted to €1,073.1 million (€1,070.3 million as at 31 December 2017), are broken down as follows:

(€/million)	Land	Buildings	Plant and machinery	Fixtures and fittings, tools and other equipment	Other assets	Work in progress and payments on account	Total
Cost	382.1	588.0	2,122.5	97.8	120.7	64.4	3,375.5
Write-downs	-	-	(0.3)	-	-	-	(0.3)
Accumulated amortisation	-	(259.1)	(1,860.1)	(88.5)	(97.2)	-	(2,304.9)
Balance as at 31 December 2017	**382.1**	**328.9**	**262.1**	**9.3**	**23.5**	**64.4**	**1,070.3**
Increases and capitalisation	1.3	8.6	37.8	2.3	4.2	49.6	103.8
Disposals [1]	-	(0.5)	(0.3)	-	-	-	(0.8)
Reclassifications [2]	-	6.3	33.2	1.0	2.5	(43.1)	(0.1)
Amortisation	-	(17.2)	(73.6)	(3.0)	(6.3)	-	(100.1)
Balance as at 31 December 2018	**383.4**	**326.1**	**259.2**	**9.6**	**23.9**	**70.9**	**1,073.1**
broken down as follows: [3]							
Cost	383.4	602.1	2,168.1	100.4	125.3	70.9	3,450.2
Write-downs	-	-	-	-	-	-	-
Accumulated amortisation	-	(276.0)	(1,908.9)	(90.8)	(101.4)	-	(2,377.1)
[1] of which:							
Cost	-	(0.8)	(25.4)	(0.7)	(2.1)	-	(29.0)
Amortisation	-	0.3	25.1	0.7	2.1	-	28.2
	-	**(0.5)**	**(0.3)**	**-**	**-**	**-**	**(0.8)**
[2] of which reclassification to the item intangible assets - software:							
Cost	-	-	-	(0.1)	-	-	(0.1)
	-	**-**	**-**	**(0.1)**	**-**	**-**	**(0.1)**
[3] net of use of the provision for write-downs for:							
Write-downs	-	-	0.3	-	-	-	0.3
Amortisation	-	-	(0.3)	-	-	-	(0.3)
	-	**-**	**-**	**-**	**-**	**-**	**-**

Investments for the year, which amounted to €103.8 million (€91.7 million in 2017), fall within the scope of the modernisation and technological development initiatives that the Group implemented.

The amount of the existing contractual commitments for the purchase of property, plant and machinery is specified in Note 19.2 “Commitments”.

13.2 Real estate investments

Real estate investments amount to €4.4 million (€4.7 million as at 31 December 2017) and concern some property, owned by Rai Pubblicità SpA (hereinafter "Rai Pubblicità"), leased to third parties, for which rent is received totalling €1.7 million in the year ended 31 December 2018 (€1.9 million as at 31 December 2017). Real estate investments break down as follows.

(€/million)	Buildings
Cost	13.6
Accumulated amortisation	(8.9)
Balance as at 31 December 2017	**4.7**
Amortisation	(0.3)
Balance as at 31 December 2018	**4.4**
broken down as follows:	
Cost	13.6
Accumulated depreciation	(9.2)

During 2018, no investments or disposals took place, the change in the period therefore refers to the entire depreciation charge.

Based on the latest estimates, the market value as at 31 December 2018 of the buildings entered under real estate investments ranges between €33.1 million and €39.4 million.

13.3 Intangible assets

Intangible assets, which amounted to €919.5 million (€944.9 million as at 31 December 2017), are broken down as follows:

(€/million)	Programmes	Software	Trademarks	Goodwill	Other intangible assets	Work in progress and payments on account	Total
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)
Balance as at 31 December 2017	**641.5**	**15.1**	**-**	**5.0**	**3.3**	**280.0**	**944.9**
Increases and capitalisation	292.5	6.3	-	-	-	148.6	447.4
Disposals [1]	-	-	-	-	-	(1.0)	(1.0)
Reclassifications [2]	154.9	3.4	-	-	-	(158.2)	0.1
Write-downs	(55.4)	-	-	-	-	(2.8)	(58.2)
Amortisation [3]	(404.0)	(9.4)	-	-	(0.3)	-	(413.7)
Balance as at 31 December 2018	**629.5**	**15.4**	**-**	**5.0**	**3.0**	**266.6**	**919.5**
broken down as follows [4]:							
Cost	1,415.2	32.8	0.1	5.0	3.5	299.3	1,755.9
Write-downs	(68.7)	-	-	-	-	(32.7)	(101.4)
Amortisation	(717.0)	(17.4)	(0.1)	-	(0.5)	-	(735.0)
[1] of which:							
Cost	-	-	-	-	-	(1.0)	(1.0)
	-	**-**	**-**	**-**	**-**	**(1.0)**	**(1.0)**
[2] of which reclassification to the item property, plant and equipment - fixtures and fittings, tools and other equipment:							
Cost	-	0.1	-	-	-	-	0.1
	-	**0.1**	**-**	**-**	**-**	**-**	**0.1**
[3] net of use of the provision for write-downs for:							
Write-downs	42.4	-	-	-	-	-	42.4
Amortisation	(42.4)	-	-	-	-	-	(42.4)
	-	**-**	**-**	**-**	**-**	**-**	**-**
[4] amounts net of assets amortised in full at year end and, for work in progress, net of assets eliminated, amounting to:							
Cost	(453.4)	(2.4)	-	-	(0.4)	(0.8)	(457.0)
Write-downs	-	-	-	-	-	0.8	0.8
Amortisation	453.4	2.4	-	-	0.4	-	456.2
	-	**-**	**-**	**-**	**-**	**-**	**-**

Investments, which amounted to €447.4 million (€464.3 million as at 31 December 2017) mainly refer to TV series for €302.4 million and films for €109.0 million.

The amount of work in progress and payments on account refers to programmes for €252.2 million, software for €13.3 million and other rights for €1.1 million.

The write-downs recognised during the year amounted to €58.2 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 19.2 “Commitments”.

13.4 Equity investments

Equity investments valued by the equity method and other investments, respectively for €5.8 million (€6.0 million as at 31 December 2017) and €0.9 million (€0.9 million as at 31 December 2017), break down as follows.

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Joint ventures	4.5	4.1
Associates	1.3	1.9
Total investments measured by equity method	**5.8**	**6.0**
Equity investments in other companies	0.9	0.9
Total equity investments	**6.7**	**6.9**

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

(€/million)	Year ended 31 December 2017			Change in the year			**Year ended 31 December 2018**		
	Costo	Adjustment to shareholders' equity	Financial statement value	Acquisitions	Profit/(loss)	Decrease due to dividends	**Cost**	**Adjustment to shareholders' equity**	**Financial statement value**
Joint ventures:									
San Marino RTV SpA	0.3	1.8	2.1	-	-	-	0.3	1.8	2.1
Tivù Srl	0.5	1.5	2.0	-	0.7	(0.3)	0.5	1.9	2.4
Associated companies:									
Audiradio Srl (in liquidation)	1.4	(1.4)	-	-	-	-	1.4	(1.4)	-
Auditel Srl	-	0.7	0.7	-	-	-	-	0.7	0.7 (a)
Euronews SA	0.9	0.3	1.2	-	(0.6)	-	0.9	(0.3)	0.6
Tavolo Editori Radio Srl	-	-	-	-	-	-	-	-	-
Total equity investments in joint ventures and associated companies	**3.1**	**2.9**	**6.0**	**-**	**0.1**	**(0.3)**	**3.1**	**2.7**	**5.8**

(a) valuation relating to the Financial Statements as at 31 December 2017, the latest available.

Investments in joint ventures concern:

- *San Marino Rtv SpA* (50% Rai): the company, incorporated in 1991 with joint shares of Rai and E.RA.S. ("Ente di Radiodiffusione Sammarinese") pursuant to 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 a nominal value of €516.46 each. Related to the positive result achieved by the company in 2018, the investment was revalued, for an insignificant amount in millions of euro, to adjust it to the value of €2.1 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 2018, distribution of a dividend of €0.6 million was resolved for 2017. The amount concerning Rai, €0.3 million, was recorded to reduce the recognition value of the equity investment. Following the profit attained by the company in 2018 which amounted to €1.5 million, the equity investment was revalued for the portion concerning Rai, which came to €0.7 million. The equity investment was recognised for the value of €2.4 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 nominal value of €1.00 each. the gross value of the equity investment, €1.4 million, was totally written down based on the last Financial Statements as at 31 December 2018, which showed negative shareholders' equity that was not significant in millions of euro. 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 nominal value of €1.00 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 31 December 2017.

- *Euronews - Société Anonyme* (3.08% Rai): the share capital, €26.9 million, consists of 1,792,373 shares of the nominal value of €15 each. The investment was written down as at 31 December 2018 for the amount of €0.6 million to adjust it to the percentage concerning Rai on the shareholders' equity value of the company corresponding to €0.6 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 €. The extraordinary shareholders' meeting held on 14 June 2018 resolved to cover losses realised as at 31 December 2017 by resetting share capital to zero and at the same time re-establishing such capital through shareholders in proportion to the equity investments held by them. On 12 July 2018, Rai paid its share. The investment is currently registered for an insignificant value in millions of euro, corresponding to the Rai percentage of the shareholders' equity of the company as at 31 December 2018 showing a positive result of €0.2 million.

Here below are the movements of the other investments:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Almaviva SpA	0.3	0.3
Istituto dell'Enciclopedia Italiana Treccani SpA	0.7	0.7
Others [1]	0.1	0.1
Gross value	**1.1**	**1.1**
Provision for the write-down of equity investments in other companies	(0.2)	(0.2)
Total equity investments in other companies	**0.9**	**0.9**

[1] Banca di Credito Cooperativo di Roma Scpa, International Multimedia University Umbria Srl in liquidation and Immobiliare Editori Giornali 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. During 2018, distribution of a dividend of €12.6 million was decided. The amount due to Rai, equal to €0.1 million, was recognised in the item financial income.

- *Istituto dell'Enciclopedia Italiana 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. Share capital is represented by 62,724,105 share of a nominal value of €1.00 each.

- *Banca di Credito Cooperativo di Roma Scpa* (company with variable capital, with the percentage held by Rai insignificant): was recognised for a value of €1 thousand for the acquisition of 100 shares.

- *Immobiliare Editori Giornali Srl* (1.75% Rai Com)*:* the equity investment, recognised in the financial statements of Rai Com, for an insignificant value in millions of Euro, comprised 23,815 shares against payment and 4,306 shares without a consideration for a total of 28,121 shares of a nominal value of €0.51 out of a total of 1,608,000.

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

13.5 Non-current financial assets

Non-current financial assets, which amounted to €3.1 million (€4.6 million as at 31 December 2017), break down as follows:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Financial receivables from personnel	0.1	-
Securities	2.4	2.5
Derivative instruments	-	1.2
Other non-current financial assets	0.6	0.9
Total non-current financial assets	**3.1**	**4.6**

Non-current financial assets are shown net of the provision for write-downs of €0.2 million (unchanged compared to 31 December 2017) entirely referring to the financial receivables from employees.

The item securities equal to €2.4 million (€2.5 million as at 31 December 2017), is entirely made up of government bonds falling due in May 2021, securing the Service Agreement and the special services agreement with the State.

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

(€/million)	**Year ended 31 December 2018**			
	Within 12 months	Between 1 and 5 years	Beyond 5 years	Total
Financial receivables from personnel	0.1	0.1	-	0.2
Securities	-	2.4	-	2.4
Derivative instruments	0.6	-	-	0.6
Blocked bank deposits	5.5	-	-	5.5
Other financial assets	0.3	0.6	-	0.9
Total current and non-current financial assets	**6.5**	**3.1**	**-**	**9.6**

(€/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 current and non-current financial assets	**7.2**	**4.6**	**-**	**11.8**

The short-term portion of the financial assets, which amounted to €6.5 million, is included in the current components of the statement of financial position described in Note 14.3 “Current financial assets”.

Information on risks hedged and on hedging policies is disclosed in Note 9.1 “Market risk”.

13.6 Deferred tax assets

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Deferred tax assets eligible for offset	134.2	122.3
Deferred tax liabilities eligible for offset	(157.7)	(160.9)
Net deferred tax liabilities	**(23.5)**	**(38.6)**

As at 31 December 2017, at 31 December 2018 the net balance of deferred tax assets and deferred tax liabilities shows a negative amount, so is posted in the liabilities of the consolidated statement of financial position. Please refer to Note 16.4 “Deferred tax liabilities” for the relevant analyses.

Income taxes are reported in Note 18.10 “Income taxes”.

13.7 Other non-current assets

Other non-current assets totalled €50.2 million (€15.2 million as at 31 December 2017) and break down as follows:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Advances for sports events	41.5	7.0
Advances for trade initiatives	20.8	20.6
Non-current portion of trade receivables	4.1	1.0
Receivables from personnel	0.5	0.5
Amounts committed to cautionary deposit with third parties	2.2	2.3
Other non-current receivables	1.7	4.4
- Provision for write-down of other non-current assets	(20.6)	(20.6)
Total other non-current assets	**50.2**	**15.2**

Advances for sports events mainly refer to sums paid for the acquisition of rights to future sports' events (the most significant including the European football Championships and the 2020 summer Olympics).

Other non-current receivables refer to €1.0 million for the recognition of the non-current portion of the substitute tax arising from tax relief for the merger deficit generated by the merger through incorporation of the company Sud Engineering with Rai Way in 2017. The current portion equal to €0.1 million was recognised under the item current income tax credits as explained in Note 14.4.

The remaining items above basically regard non-current portions of assets described in Note 14.5 “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 (unchanged compared to 31 December 2017), breaks down as follows:

(€/million)	Year ended 31 December 2017	Provisions	Drawdowns	**Year ended 31 December 2018**
Provision for write-down of advances for trade initiatives	(13.7)	(0.8)	-	(14.5)
Provision for write-down of advances for sports events	(6.9)	-	0.8	(6.1)
Total provision for write-down of other non-current assets	**(20.6)**	**(0.8)**	**0.8**	**(20.6)**

14 Current assets

14.1 Inventory

Inventory, net of its provision for write-downs, amounted to €2.3 million (€2.4 million as at 31 December 2017), and breaks down as follows:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Technical materials	12.9	13.0
- Technical materials bad debt provisions	(12.1)	(12.1)
Work in progress to order	0.2	0.2
Finished products and goods	1.3	1.3
Total inventory	**2.3**	**2.4**

The final inventory of technical materials, €0.8 million net of the bad debt provisions (€0.9 million as at 31 December 2017), 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 2017), 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, equal to €1.3 million (unvaried compared to 31 December 2017), mainly concerns inventories related to magazines and books and home video distribution.

14.2 Trade receivables

Trade receivables amount to €373.3 million (€390.6 million as at 31 December 2017) and break down as follows:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Trade:		
- State and other public bodies for agreement services	59.4	61.6
- Other receivables	360.2	374.0
- Provision for write-downs - trade	(46.5)	(45.2)
Joint ventures and associates	0.2	0.2
Total trade receivables	**373.3**	**390.6**

Receivables from joint ventures and associated companies refer to:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
San Marino RTV SpA	0.1	0.1
Tivù Srl	0.1	0.1
Receivables from joint ventures and associated companies	**0.2**	**0.2**

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, €59.4 million (€61.6 million as at 31 December 2017), refers to:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
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	11.4
Radio and TV broadcasts in French for the Valle d'Aosta Autonomous Region	2.1	2.1
Revenue Office:		
Management of ordinary TV licence fees	8.0	10.5
Regions and Provinces:		
Autonomous Province of Bolzano: broadcast of radio and TV programs in German and Ladin in the autonomous province of Bolzano	19.2	19.2
Autonomous Region of Valle d'Aosta: management of plants for the TV reception of programmes from the French cultural area	8.9	8.6
Total receivables from the State and other public bodies for agreement services	**59.4**	**61.6**

The other trade receivables are net of amounts transferred non-recourse equal, as at 31 December 2018, to €0.3 million (€7.2 million as at 31 December 2017).

Receivables from related parties are specified in Note 19.4 “Transactions with Related Parties”.

Trade receivables are shown net of the provision for write-downs of €46.5 million (€45.2 million as at 31 December 2017), with movements itemised below:

(€/million)	Year ended 31 December 2017	Provisions	Drawdowns	Absorptions	Application IFRS 9	**Year ended 31 December 2018**
Provision for write-downs - trade	**(45.2)**	**(3.2)**	**3.2**	**0.5**	**(1.8)**	**(46.5)**

The first-time adoption of IFRS 9 led to an increase in the provision for write-down-trade, for a value of €1.8 million as explained in Note 6.1 “First-time adoption of IFRS 9”.

Receivables in foreign currency amount to €5.4 million (€3.8 million as at 31 December 2017) as indicated in Note 9.1 “Market risk”.

14.3 Current financial assets

Current financial assets, which amounted to €6.5 million (€7.2 million as at 31 December 2017), decreased by €0.7 million. The breakdown of the item and the comparison with the previous year are shown below:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Joint ventures and associates	-	0.5
From employees	0.1	-
Derivative instruments	0.6	-
Blocked bank deposits	5.5	6.3
Other current financial assets	0.3	0.4
Total current financial assets	**6.5**	**7.2**

Receivables from joint ventures and associated companies as at 31 December 2017 refer to San Marino RTV.

Blocked bank deposits, which came to €5.5 million (€6.3 million as at 31 December 2017) refer to amounts seized on current accounts due to litigation in progress.

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

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Currency hedging derivatives	0.6	-
Total derivative financial instruments – current portion	**0.6**	**-**
Rate hedging derivatives	-	1.2
Total derivative financial instruments – non-current portion	**-**	**1.2**
Total derivative financial instruments	**0.6**	**1.2**

The fair value of 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 11 “Fair value measurement”. Cash flow hedging on exchange rates for €0.6 million as at 31 December 2018 refer to the hedging of contracts for the acquisition of TV and film rights of Rai Cinema in USD, an are adopted by the Parent Company under a specific mandate of the subsidiary. No non-current portions are recognised.

The recognition of effects on the income statement and realisation of cash flows from hedged contracts take place over a time interval which ends in the fourth quarter of 2019.

No transactions qualifying on a preliminary basis as hedging changed status in 2018.

The value of €1.2 million as at 31 December 2017 refers to the fair value of interest rate swap forward start contracts stipulated by Rai, as indicated in Note 9.1 “Market risk”; these derivatives as at 31 December 2018 recorded a negative fair value and were therefore recognised as non-current financial liabilities.

Information on risks hedged and on hedging policies is disclosed in Note 9.1 “Market risk”.

14.4 Current income tax receivables

Current income tax receivables, which totalled €19.0 million (€21.7 million as at 31 December 2017), are specified as follows:

(€/million)	Year ended 31 December 2018	Year ended 31 December 2017
IRES refund requested	16.9	16.9
Withheld taxes	0.7	1.1
Total IRES	**17.6**	**18.0**
IRAP	**2.0**	**3.9**
Advance for substitute tax on goodwill	**0.1**	**-**
Provision for write-downs for current income taxes	**(0.7)**	**(0.2)**
Total current income tax receivables	**19.0**	**21.7**

Current income tax receivables are shown net of the provision for write-downs of €0.7 million (€0.2 million as at 31 December 2017) related to withheld taxes on income risking recoverability.

The IRAP receivable, €2.0 million (€3.9 million as at 31 December 2017) refers to the IRAP advances paid to tax authorities.

The advance on the substitute tax for goodwill refers to the recognition of the non-current portion of the substitute tax arising from tax relief for the merger deficit generated by the merger through incorporation of the company Sud Engineering with Rai Way in 2017. The non-current portion equal to €1.0 million was recognised under the item other non-current assets as explained in Note 13.7.

The taxes are commented in Note no. 18.10 “Income taxes”.

14.5 Other current receivables and assets

Other current receivables and assets, which totalled €121.9 million (€69.6 million as at 31 December 2017) break down as follows:

(€/million)	Year ended 31 December 2018	Year ended 31 December 2017
Advances for sports events	27.2	0.7
Advances to suppliers, collaborators and agents	25.3	20.6
Receivables from social security and welfare institutions	2.8	3.7
Other tax receivables	3.6	3.7
Receivables from personnel	9.8	10.1
Receivables from entities, companies, bodies and others	16.3	16.1
Receivables for subsidies and grants from the State, EU and other public entities	0.5	0.2
Other receivables (current deferrals)	40.5	19.0
- Provision for write-downs for other current receivables and assets	(4.1)	(4.5)
Total other current receivables and assets	**121.9**	**69.6**

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 break down as follows:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
VAT refund requested	2.2	2.1
Other tax refunds requested	0.2	0.2
Other	1.2	1.4
Total other tax receivables	**3.6**	**3.7**

The provision for write-downs for other current receivables and assets, which totalled €4.1 million (€4.5 million as at 31 December 2017) breaks down as follows:

(€/million)	Year ended 31 December 2017	Provisions	Drawdowns	Absorptions	**Year ended 31 December 2018**
Provision for write-downs for other current receivables and assets	(4.5)	(0.1)	0.1	0.4	**(4.1)**
Total provision for write-downs for other current receivables and assets	**(4.5)**	**(0.1)**	**0.1**	**0.4**	**(4.1)**

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

14.6 Cash and cash equivalents

Cash and cash equivalents, which amounted to €92.2 million (€228.0 million as at 31 December 2017), are broken down into the following items:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Bank and postal deposits	91.9	227.7
Cash and securities in hand	0.3	0.3
Total cash and cash equivalents	**92.2**	**228.0**

Bank and postal deposits amounted to €91.9 million (€227.7 million as at 31 December 2017) 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 2017) and include the liquidity represented by cash and similar values (cashier's cheques or in any case items secured by banks, etc.) in the company's coffers as at 31 December 2018.

The Company's liquid assets are shown in the following table by currency as at 31 December 2018 and as at 31 December 2017:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Cash on hand in Euro	88.0	226.3
Cash on hand in USD	4.1	1.6
Cash on hand in other currencies	0.1	0.1
Total cash and cash equivalents	**92.2**	**228.0**

15 Shareholders' equity

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

(€/million)	Year ended 31 December 2018	Year ended 31 December 2017
Share capital	**242.5**	**242.5**
Legal reserve	**12.0**	**11.8**
IFRS first-time adoption reserve	(58.7)	(58.7)
Translation difference reserve	0.6	0.7
Cash flow hedge reserve	(4.8)	0.8
Other reserves	248.1	255.3
Total other reserves	**185.2**	**198.1**
Actuarial reserve for employee benefits	(26.0)	(28.7)
Retained earnings (losses)	(3.3)	-
Profit/(loss) for the year	(21.0)	(5.4)
Total retained earnings (losses carried forward)	**(50.3)**	**(34.1)**
Total Group shareholders' equity	**389.4**	**418.3**
Third party capital and reserves	42.5	42.2
Retained earnings (losses) attributable to minority interests carried forward	21.1	19.6
Total shareholders' equity attributable to minority interests	**63.6**	**61.8**
Total shareholders' equity	**453.0**	**480.1**

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 2018, 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%;
- 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 €12.0 million.

Other reserves and retained earnings (losses carried forward)

The other reserves, for €185.2 million (€198.1 million as at 31 December 2017) and losses carried forward, for €50.3 million (€34.1 million as at 31 December 2017) are broken down as shown below.

16 Non-current liabilities

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

Non-current financial liabilities, including current portions, total €379.4 million (€443.5 million as at 31 December 2017). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2018**			Year ended 31 December 2017		
	Non-current portion	**Current portion**	**Total**	Non-current portion	Current portion	Total
Bonds	348.7	-	348.7	347.8	-	347.8
M/L-term loans due to banks	15.2	10.1	25.3	55.3	40.0	95.3
Derivative instruments	5.1	-	5.1	-	-	-
M/L-term loans due to other lenders	0.2	0.1	0.3	0.3	0.1	0.4
Total non-current financial liabilities and current portions of non-current financial liabilities	**369.2**	**10.2**	**379.4**	**403.4**	**40.1**	**443.5**

Non-current financial liabilities, including current portions, decreased by €64.1 million compared to 31 December 2017 mainly due to:

- the repayment by Rai, of two loan instalments of the European Investment Bank (EIB) for €10.0 million;
- the early repayment of the Rai Way amortising loan for €60.0 million;
- the recognition of a liability of €5.1 million, arising from the negative fair value of derivatives to hedge the risk of an increase in interest rates present at the time of renewal of the current bond issue.

The main medium/long term bank loans due as at 31 December 2018 included:

- amortising loan, maturing in 2021, from the EIB for a residual €25 million, granted to Rai for development of the digital terrestrial infrastructure;
- medium-long term credit lines granted to Rai Way by Mediocredito Centrale and Cassa Depositi e Prestiti for a total amount of €0.6 million.

The EIB loan carries covenants requiring the following balance sheet parameters/ratios to be met in the consolidated annual and half-year financial statements:

- net financial debt (adjusted net of receivables from the State for television licence fees)/shareholders' equity ≤ 1.3
- net financial debt, (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 0.63 and 0.49 respectively.

The bond issued by Rai in May 2015 is listed on Euronext Dublin (the Irish Stock Exchange). The bond, fully subscribed by international institutional investors and maturing in May 2020, has a nominal interest rate of 1.5% and is wholly unsecured. The bond carries the usual covenants for issues with a comparable rating, including:

- a negative pledge prohibiting the granting of guarantees on other bond issues by the Issuer or its "significant subsidiaries", unless the same guarantees are extended to existing bondholders 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.

On 23 October 2018, Moody's published a rating action confirming the Long-Term Issuer Baa3 of Rai (Investment Grade) and changing the outlook from negative to stable.

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

(€/million)	**Year ended 31 December 2018**			
	Within 12 months	Between 1 and 5 years	Beyond 5 years	Total
Bonds	-	348.7	-	348.7
M/L-term loans due to banks	10.1	15.2	-	25.3
M/L-term loans due to other lenders	0.1	0.2	-	0.3
Payables to joint ventures and associates	0.1	-	-	0.1
Derivative instruments	-	5.1	-	5.1
Payables for financial leases	5.7	-	-	-
Total current and non-current financial liabilities	**16.0**	**369.2**	**-**	**385.2**

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

The fair value of non-current financial liabilities other than financial derivatives (of which the value is already indicated in previous tables) and relative criteria are shown below:

- debenture loan: Euronext Dublin listing value, equal to 100.61 (inclusive of interest accruals);
- EIB loan (including short term part): discounting of flows for capital and interest at implicit Euro curve rates at the reporting date increased by the Rai credit spread, estimated based on the securities issued by the Italian State, essentially in line with the carrying amount.

(€/million)	**Year ended 31 December 2018**		Year ended 31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Rai Bonds	348.7	352.1	347.8	364.2
EIB loan to Rai	25.0	25.4	35.0	36.0

16.2 Employee benefits

Employee benefits totalled €434.9 million (€483.1 million as at 31 December 2017). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Provision for employee severance pay	225.0	258.8
Provision for supplementary pension benefits	125.4	137.2
Provision replacing the former fixed indemnity for journalists (former provisions in lieu of notice to journalists)	68.7	69.5
Health insurance fund for senior managers (FASDIR)	14.7	14.7
Seniority bonuses	0.5	2.3
Other	0.6	0.6
Total employee benefits	**434.9**	**483.1**

The provision for employee severance pay, governed by Article 2120 of the Italian 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 provision for supplementary pension benefits shows the estimated liability held by the Group for supplementary pension benefits payable to former employees who, upon termination of employment, opted for the supplementary pension scheme envisaged under trade union agreements previously in place. More specifically, under those agreements, former middle managers, office staff and workers and their family members are entitled to supplementary pension benefits with respect to those paid through the mandatory general pension scheme, and former senior managers and their family members are entitled to supplementary pension benefits with respect to those paid through the mandatory general pension scheme. Those supplementary pensions are in turn paid directly by the funds, delegated management of the supplementary pensions of Rai personnel since 1989, C.RAI.P.I. (Supplementary Pension Scheme of Rai employees, hereinafter “Craipi”) for former middle managers, office staff and workers, and F.I.P.D.RAI (supplementary pension provisions of Rai managers, hereinafter “Fipdrai”) for former senior managers. 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.

The provision replacing the former fixed indemnity for journalists (former provisions in lieu of notice to journalists) includes the estimate of the sum to be paid to employee journalists who, as at 31 December 2018 have at least 15 years seniority for severance indemnity purposes, when the working relationship ceases for: (i) dismissal for having reached pension requirement levels; (ii) resignation after at least 15 years in the Company; (iii) termination through death of the journalist when survivors have the right to a pension. That sum, calculated in compliance with the R.A.L. in force at the time of termination, with a maximum level of €85,000 absorbs, for all purposes, indemnity in lieu of notice. The provision also includes the estimate of the sum to be paid as at 31 December 2018 to journalists with severance indemnity in the company of between 10 and 15 years, when the working relationship is terminated for resignation, excluding resignation pursuant to arts. 8, 22, 24 and 32

of CNLG, for having reached age limits and for demise. That sum, unlike the former, will be paid in addition to the indemnity in lieu of notice established by law.

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 by the Group 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 2018 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 2018				
	Employee severance pay	Supplementary pension	FASDIR	Provision in lieu of former fixed indemnity for journalists	Other benefits
Present value of the liability at the start of the year	**258.8**	**137.2**	**14.7**	**69.5**	**2.9**
Current cost of defined benefit plans	-	-	-	0.2	0.1
Current cost of defined contribution plans	44.1	-	1.0	-	-
Interest expense	2.9	0.8	0.2	0.5	-
Revaluations:					
- Actuarial gains/(losses) resulting from changes in demographic assumptions	-	-	-	-	-
- Actuarial gains/losses resulting from changes in financial assumptions	(2.4)	(0.5)	-	-	-
- Effect of past experience	0.5	(1.0)	-	0.4	-
Cost of past benefits and gains/losses on settlement	-	-	-	(1.5)	(1.5)
Benefits paid	(11.5)	(11.1)	(1.2)	(0.4)	(0.4)
Transfers to external funds for defined contribution plans	(44.2)	-	-	-	-
Other movements	(23.2)	-	-	-	-
Present value of the liability at the end of the year	**225.0**	**125.4**	**14.7**	**68.7**	**1.1**

(€/million)	Year ended 31 December 2017				
	Employee severance pay	Supplementary pension	FASDIR	Provision in lieu of former fixed indemnity for 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	-
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)	-	-	-	-
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**

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 2018**				
	Employee severance pay	Supplementary pension	FASDIR	Provision in lieu of former fixed indemnity for journalists	Other benefits
Current cost of defined benefit plans	-	-	-	(0.2)	(0.1)
Current cost of defined contribution plans	(44.1)	-	(1.0)	-	-
Cost of past benefits and gains/losses on settlement	-	-	-	1.5	1.5
Interest expense	(2.9)	(0.8)	(0.2)	(0.5)	-
Total	**(47.0)**	**(0.8)**	**(1.2)**	**0.8**	**1.4**

(€/million)	Year ended 31 December 2017				
	Employee severance pay	Supplementary pension	FASDIR	Provision in lieu of former fixed indemnity for 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	-
Interest expense	(1.9)	(1.3)	(0.2)	(1.3)	-
Total	**(45.7)**	**(1.3)**	**(0.9)**	**40.2**	**(0.1)**

Costs for defined benefit plans recognised in other comprehensive income break down as follows:

(€/million)	**Year ended 31 December 2018**				
	Employee severance pay	Supplementary pension	FASDIR	Provision in lieu of former fixed indemnity for journalists	Other benefits
Revaluations:					
- Actuarial gains/losses resulting from changes in demographic assumptions	-	-	-	-	-
- Actuarial gains/losses resulting from changes in financial assumptions	2.4	0.5	-	-	-
- Effect of past experience	(0.5)	1.0	-	(0.4)	-
Total	**1.9**	**1.5**	**-**	**(0.4)**	**-**

(€/million)	Year ended 31 December 2017				
	Employee severance pay	Supplementary pension	FASDIR	Provision in lieu of former fixed indemnity for 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)	-
Total	**4.8**	**(0.1)**	**-**	**(1.3)**	**-**

The main actuarial assumptions adopted are reported below.

	Year ended 31 December 2018	Year ended 31 December 2017
Financial assumptions		
Average discount rates [1]	from 0.85% to 1.53%	from 0.88% to 1.56%
Inflation rate	1.50%	1.50%
Expected rate 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:		
- Provision for employee severance pay	SI 2016 revised	SI 2016 revised
- Provision for supplementary pension benefits	AS62	AS62
- Provision replacing the former fixed indemnity for journalists (former provisions in lieu of notice to journalists)	-	-
Disability tables:		
- Provision for employee severance pay	INPS tables by age and gender	INPS tables by age and gender
- Provision for supplementary pension benefits	-	-
- Provision replacing the former fixed indemnity for journalists (former provisions in lieu of notice to journalists)	-	-
Average annual employee leaving rate	from 3.10% to 7.80%	from 3.70% to 7.80%
Annual probability of advance requests	1.50%	1.50%

[1] Measured as the weighted average of Eurocomposite AA 2018 interest rate curve for 31 December 2018 and Eurocomposite AA 2017 for 31 December 2017.
[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 2018 and as at 31 December 2017 are shown below:

(€/million)	Year ended 31 December 2018				
	Sensitivity	Employee severance pay	Supplementary pension	FASDIR	Other benefits
Discount rate	+0.50%	217.7	130.9	-	67.2
	-0.50%	232.9	120.3	-	72.6

(€/million)	Year ended 31 December 2017				
	Sensitivity	Employee severance pay	Supplementary pension	FASDIR	Other benefits
Discount rate	+0.50%	251.1	131.5	-	66.7
	-0.50%	267.2	143.4	-	72.4

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

(€/million)			
Expected payments	**Provision in lieu of former fixed indemnity for journalists**	**Employee severance pay**	**Supplementary pension**
Expected payments as at 31.12.2019	4.1	13.0	10.7
Expected payments as at 31.12.2020	3.9	15.1	10.3
Expected payments as at 31.12.2021	3.8	16.0	9.8
Expected payments as at 31.12.2022	5.4	19.0	9.3
Expected payments as at 31.12.2023	5.2	15.0	8.9
Payments planned from 1.01.2024 and subsequent years	50.3	174.3	93.1

16.3 Provisions for non-current risks and charges

Provisions for risks and non-current charges totalled €181.5 million (€185.3 as at 31 December 2017). The figure breaks down as follows:

(€/million)	Year ended 31 December 2017	Provisions	Drawdowns	Absorptions	Conversion differences	Year ended 31 December 2018
Provisions for legal disputes	69.9	12.9	(12.9)	(0.4)	0.1	69.6
Provisions for building renovation and refurbishment	28.0	0.8	(0.8)	-	-	28.0
Provisions for dismantling and restoration costs	14.6	0.2	-	(0.3)	-	14.5
Provisions for accrued compensation costs	19.1	16.0	(16.9)	(2.1)	-	16.1
Provisions for social security disputes	3.0	-	-	-	-	3.0
Provisions for tax disputes	2.6	2.9	-	(1.0)	-	4.5
ISC and ISM provisions Agents	2.1	0.3	-	(0.1)	-	2.3
Provisions for disputes over leases	1.4	-	-	(0.4)	-	1.0
Provisions for default interest payment risks	0.6	-	-	-	-	0.6
Provisions for licence fee refunds	0.4	-	(0.1)	-	-	0.3
Other provisions	43.6	3.8	(1.2)	(4.6)	-	41.6
Total provisions for non-current risks and charges	**185.3**	**36.9**	**(31.9)**	**(8.9)**	**0.1**	**181.5**

Provisions for legal disputes, totalling €69.6 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 €37.8 million, and €31.8 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 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 €14.5 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 €16.1 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.

The provision for tax litigation risks, totalling €4.5 million (€2.6 million as at 31 December 2017), includes the estimate of overall costs for taxes and sanctions determined pursuant to article 6 of Decree Law 119/2018 amended by Law 136/2018, for tax litigation in relation to which Rai Pubblicità decided to file an application, within May 2019, for a settlement concession concerning outstanding tax litigation. €1.0 million of this provision was released due to the partial elimination of taxes and the total elimination of sanctions, interest and commission already allocated in previous years and in excess of provisions regarding the settlement concession. The provision was increased by €2.9 million in relation to taxes and sanctions relative to findings of the tax litigation pending, for which no provision was made as at 31 December 2017, as it was considered as only a possible or remote liability, in keeping with the risk assessments made by appointed consultants. As at 31 December 2018, no provision had been made with reference to liabilities considered to be merely possible or remote.

ISC (Supplementary Customer Indemnities) and ICM (Meritocratic Customer Indemnities) provisions for agents, for €2.3 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 the portfolio.

16.4 Deferred tax liabilities

Deferred tax liabilities totalled €23.5 million and are stated net of €134.2 million of deferred tax assets eligible for offsetting. The net balance as at 31 December 2017 showed a deferred tax liability of €38.6 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 2017	Changes			**Year ended 31 December 2018**
		Income statement	Other comprehensive income	Equity	
Taxable differences in property, plant and equipment	(157.7)	2.0	-	-	(155.7)
Currency and rate derivatives	(0.3)	-	0.2	-	(0.1)
Other equity investments	(1.7)	-	-	-	(1.7)
Other	(1.2)	1.0	-	-	(0.2)
Deferred tax liabilities	**(160.9)**	**3.0**	**0.2**	**-**	**(157.7)**
Negative taxable income	115.7	43.4	-	(30.8)	128.3
Write-downs of programs	0.5	(0.4)	-	-	0.1
Statutory/taxable difference programs	0.1	0.2	-	-	0.3
Employee benefits	0.8	(0.1)	(0.1)	-	0.6
Estimate of provisions recovered	3.2	(0.1)	-	-	3.1
Deferred tax assets on consolidation adjustments	1.5	(0.1)	-	-	1.4
Tax effects arising from the first-time adoption of accounting standard IFRS 15	-	(1.0)	-	1.0	-
Other	0.5	(0.1)	-	-	0.4
Deferred tax assets eligible for offset	**122.3**	**41.8**	**(0.1)**	**(29.8)**	**134.2**
Net deferred tax liabilities	**(38.6)**	**44.8**	**0.1**	**(29.8)**	**(23.5)**

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

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

Deferred tax assets on tax losses carried forward are equal to €128.3 million, of which it is probable that they will be used to offset the taxable earnings of Group companies that participate in the tax consolidation arrangement and the deferred tax liability carried through to the income statement.

16.5 Other non-current payables and liabilities

Other non-current payables and liabilities are all stated in Euros. Totalling €1.6 million (€2.0 million as at 31 December 2017), 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 17.1 "Trade payables and other current payables and liabilities" for further information on those grants.

Payables to related parties are reported in Note 19.4 "Transactions with related parties".

17 Current liabilities

17.1 Trade payables and other current payables and liabilities

Trade payables and other current payables and liabilities amounted to a total €1,161.2 million (€1,102.0 million as at 31 December 2017). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Trade payables to suppliers	700.4	655.8
Trade payables to joint ventures and associates	5.6	4.3
Total trade payables	**706.0**	**660.1**
Payables to personnel	241.4	226.0
Payables to social security institutions	79.3	76.2
Other tax payables	38.4	59.4
Payables for frequency rights	-	0.4
Other payables for assessments	4.5	4.8
Advances:		
- Ordinary licence fees	73.7	56.9
- Other advances	3.8	7.7
Deferrals:		
- Advertising	2.6	-
- Licence fees	0.9	0.5
- Grants for the switch-over to digital terrestrial	0.8	1.6
- Other deferrals	1.0	0.6
Accruals	3.1	3.1
Other payables	5.7	4.7
Total other current payables and liabilities	**455.2**	**441.9**
Total trade payables and other current payables/ liabilities	**1,161.2**	**1,102.0**

Trade payables to joint ventures and associates refer to:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Auditel Srl	2.0	-
San Marino RTV SpA	3.2	3.4
Tavolo Editori Radio Srl	-	0.5
Tivù Srl	0.4	0.4
Total trade payables to joint ventures and associates	**5.6**	**4.3**

Payables to personnel totalled €241.4 million (€226.0 million as at 31 December 2017). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Untaken paid annual leave	69.8	73.2
Untaken time in lieu	52.1	52.9
Wage and salary assessment	72.5	50.5
Redundancy incentives	45.4	47.6
Other	1.6	1.8
Total payables to personnel	**241.4**	**226.0**

Payables to social security institutions totalled €79.3 million (€76.2 million as at 31 December 2017). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Payables to supplementary pension funds for personnel	24.6	21.1
Payables to INPGI	14.0	13.6
Payables to INPS	27.9	28.7
Payables to INAIL	-	0.1
Payables to CASAGIT	1.4	1.4
Contributions on assessed wages and salaries	10.4	10.3
Other payables	1.0	1.0
Total payables to social security institutions	**79.3**	**76.2**

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 2018**	Year ended 31 December 2017
Group VAT	2.1	21.3
Suspended VAT	1.0	1.0
Withheld tax on wages and salaries for employees and contractors, substitution tax and other withholdings	35.3	37.1
Total other tax payables	**38.4**	**59.4**

Deferrals for grants for the switch-over to digital terrestrial included €0.8 million for the current portion of government grants provided 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 of 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 consolidated 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 between the amount of the grant received and investments made to complete the relative projects.

Total payables due in currencies other than the euro are reported in Note 9.1 “Market risk”.

Payables to related parties are reported in Note 19.4 “Transactions with related parties”.

17.2 Current financial liabilities

Current financial liabilities totalled €16.0 million (€40.8 million as at 31 December 2017). The breakdown is shown in the table below:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
M/L-term loans due to banks (current portion)	10.1	40.0
M/L-term loans due to other lenders (current portion)	0.1	0.1
Payables for financial leases	5.7	-
Payables to joint ventures and associates	0.1	-
Derivative instruments	-	0.5
Other current financial payables and liabilities	-	0.2
Total current financial liabilities	**16.0**	**40.8**

The current portion of non-current financial liabilities is reported in the table below and explained in Note 16.1 "Non-current financial liabilities and current portions of non-current financial liabilities".

Payables for financial leases, for €5.7 million refer to exercising the option right during 2018 to purchase the building used as a regional office in Basilicata.

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

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Currency hedging derivatives	-	0.5
Total derivative financial instruments – current portion	**-**	**0.5**
Rate hedging derivatives	5.1	-
Total derivative financial instruments – non-current portion	**5.1**	**-**
Total derivative financial instruments	**5.1**	**0.5**

Derivative transactions concern the cash flow edge of the exchange risk on contracts for the acquisition of TV and film rights in USD and Interest Rate Swap Forward Start transactions.

The liabilities for rate hedging derivatives are explained in Note 16.1 "Non-current financial liabilities and current portions of non-current financial liabilities". Current portions were not recognised.

Information on risks hedged and on hedging policies is disclosed in Note 9.1 "Market risk".

17.3 Current income tax payables

Current income taxes payable totalled €31.0 million (€30.5 million as at 31 December 2017). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
IRES	30.2	30.0
IRAP	0.4	0.5
Tax and other assessments	0.4	-
Total current income taxes payable	**31.0**	**30.5**

As concerns amounts payable to the Inland Revenue for IRES, totalling €30.2 million (€30.0 million as at 31 December 2017), Group companies opted for Group taxation, thus transferring to the Parent Company, as the consolidating party, obligations related 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 19.4 "Transactions with related parties".

Income taxes are reported in Note 18.10 "Income taxes".

18 Consolidated income statement

18.1 Revenue from sales and services

The main items are analysed below:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
TV licence fees	1,758.0	1,776.6
Advertising	631.1	647.6
Other revenue	176.7	184.2
Total revenue from sales and services	**2,565.8**	**2,608.4**

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

TV licence fees

Licence fees in 2018 amounted to €1,758.0 million (€1,776.6 million in 2017). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Licence fees for the period – household licences	1,634.1	1,633.3
Licence fees for the period – special licences	79.6	79.0
Licences fees collected by enforcement order	30.4	39.7
Licence fees for prior years – household licences	13.9	24.6
Licence fee refunds	-	-
Total TV licence fees	**1,758.0**	**1,776.6**

When calculating the amount from the TV licences of household licences, the information and figures made available with reference to the new collection method were used, considering Law 190 of 23 December 2014 (art. 1, paragraph 293). This established a reduction of 5 per cent, from 2015, of sums to be paid to Rai to cover the cost of the Public Service being supplied.

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.

That law 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. That 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:
- TV licence fees collected by enforcement order refer to licence fees due in 2015 and prior years and paid in 2018 under an enforcement order by households with overdue payments;
- previous year licences – households are related to 2017 licence fees that became known in financial year 2018 in so far as they were paid to the State during the year.

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 audi-

tor, for its Public Service operations, has found a shortfall in such revenue for the period 2005-2017 of €2.6 billion.

Advertising

Revenue from advertising amounted to €631.1 million (€647.6 million in 2017). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Television advertising on general-interest channels:		
- air time	367.1	408.4
- promotions, sponsorships and special initiatives	142.1	124.6
- product placements	7.3	5.3
Television advertising on specialist channels	70.3	65.1
Radio advertising	30.3	31.6
Cinema advertising	4.7	4.4
Web advertising	11.3	9.2
Other advertising	0.7	0.6
Third-party quotas	(2.1)	(1.5)
Contingencies	(0.6)	(0.1)
Total advertising	**631.1**	**647.6**

Other revenue

Other revenue from sales and services amounted to €176.7 million (€184.2 million in 2017). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Special services under convention	43.9	43.9
Sale of music rights and editions	67.5	58.8
Film and home video distribution	27.9	29.4
Distribution and sale of channels	19.2	21.1
Fees for hosting plants and equipment	30.6	32.4
Sundry services, mainly for institutional purposes	11.1	9.5
Signal diffusion services, rental of circuits, radio links and connections	2.6	4.9
Interactive telephone	0.3	0.3
Production services	0.5	0.9
Revenue from sales	0.8	1.5
Other	1.7	1.5
Third-party quotas	(31.8)	(26.1)
Contingencies	2.4	6.1
Total other revenue	**176.7**	**184.2**

18.2 Other revenue and income

Other revenue and income amounted to €12.2 million (€15.6 million in 2017). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Contributions for operating expenses	4.5	5.4
Income from real estate investments and rentals	1.9	2.1
Compensation for damages	0.5	3.0
Contingencies	0.8	1.0
Other	4.5	4.1
Total other revenues and income	**12.2**	**15.6**

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

Costs for the purchase of consumables, costs for services and other costs totalled €986.8 million (€1,033.8 million as at December 2017). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Costs for the purchase of consumables	12.8	13.6
Costs for services	920.9	950.6
Other costs	53.1	69.6
Total costs for the purchase of consumables, services and other costs	**986.8**	**1,033.8**

Costs for the purchase of consumables, equal to €12.8 million (€13.6 million in 2017), refer to purchases of various production materials for €3.9 million (€3.7 million in 2017), technical inventories for €0.6 million (€0.9 million in 2017) and other materials for €8.3 million (€9.0 million in 2017).

The breakdown of costs for services is shown in the table below. The item totalled €920.9 million (€950.6 million in 2017), net of discounts and rebates obtained and includes, inter alia, emoluments, indemnities of office and expense refunds paid by the Parent Company to Directors, for a total of €0.8 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.

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Contractors	132.7	128.0
Services for programme acquisition and production	209.5	212.0
Travel allowances and expenses and accessory costs for personnel	38.0	38.5
Maintenance, repairs, transport and similar	43.2	43.0
IT system documentation and assistance services	53.2	51.3
Other outsourced services (telephone, supply services, cleaning, postal, insurance etc.)	145.7	143.9
Rental expenses and rentals	84.6	91.7
Recording rights	134.9	158.6
Copyright	105.4	104.9
Contingencies	(12.7)	(7.4)
Cost recoveries and expense refunds	(13.6)	(13.9)
Total costs for services	**920.9**	**950.6**

Pursuant to article 2427, no. 16 *bis* of the Italian Civil Code, fees for the year ended 31 December 2018 for services provided by the External Auditors totalled €0.6 million and break down as follows:

- for annual auditing of accounts: €0.3 million;
- for other auditing services: €0.1 million;
- for non-audit services: €0.2 million.

Other costs, equal to €53.1 million (€69.6 million in 2017), break down as follows:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Losses for VAT paid on the tax dispute settlement concessions	-	16.8
Administrative fees and rights for use of frequencies	10.9	10.8
Fee to control authorities	5.8	5.2
TASI/ IMU tax	10.4	10.7
Other indirect taxes and other duties	10.2	10.5
Prizes and winnings	6.0	6.6
Newspapers, magazines, books and publications	1.8	1.7
Membership fees	3.9	3.8
Losses on disposals	0.2	0.5
Other	3.8	3.5
Contingencies	0.1	(0.5)
Total other costs	**53.1**	**69.6**

18.4 HR expenses

HR expenses totalled €1,006.2 million (€983.3 million as at 31 December 2017). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Wages, salaries, and social security costs	947.0	888.9
Employee severance pay	44.1	43.8
Pensions and similar obligations	14.1	14.7
Other	15.2	14.7
HR expenses	**1,020.4**	**962.1**
Costs for redundancy incentives	7.5	49.8
Recovery of expenses	(1.3)	(1.0)
HR expenses capitalised	(16.3)	(20.0)
Other HR expenses	**(10.1)**	**28.8**
Contingencies and releases of provisions	(4.1)	(7.6)
Total HR expenses	**1,006.2**	**983.3**

The item includes €45.1 million of charges for defined contribution plans and €2.7 million of income from defined benefit plans, net of past benefits, as reported in Note 16.2 “Employee benefits”.

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 journalist staff; 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 was renewed, by agreement on 28 June 2018, for the three-year period 2014-2016 and, on an exceptional basis, for 2017 and 2018;
- for journalist staff, on 13 March 2018 Rai and Unindustria Roma signed a Convention for the Extension of the National Collective Bargaining Agreement for Journalists to Rai with Usigrai and FNSI; the Rai–Usigrai Addendum Agreement expired on 31 December 2013;
- for personnel employed as senior managers, the collective bargaining agreement for the period 1/1/2015 – 31/12/2018 is still in force, while the Rai–ADRai Addendum Agreement for the period 2017-2019 was renewed on 6 July 2018;
- the collective bargaining agreement for middle managers and office staff of Rai Pubblicità was renewed, by agreement on 7 July 2018, for the period 2014-2016 and, on an exceptional basis, for 2017 and 2018.

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

	Year ended 31 December 2018			Year ended 31 December 2017		
	Average number of staff on a temporary contract	Average number of staff on a permanent contract (1)	Total	Average number of staff on a temporary contract	Average number of staff on a permanent contract (1)	Total
Managers	0	336	336	0	341	341
Officers/middle managers	1	1,380	1,381	1	1,391	1,392
Journalists	213	1,645	1,858	189	1,627	1,816
Office staff	456	7,692	8,148	492	7,747	8,239
Workers	41	913	954	71	925	996
Orchestra musicians and choristers	3	118	121	3	123	126
General practitioners	0	7	7	0	7	7
	714	**12,091**	**12,805**	**756**	**12,161**	**12,917**
(1) of which trainees/apprentices		100			141	

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 part-time employees. The average number of employees includes personnel on permanent and temporary employment contracts.

18.5 Impairment of financial assets

This newly introduced item recognises impairment losses (including recoveries) of financial assets in the wider meaning provided by IAS 32, that includes all assets of a contractual origin that give right to receiving cash flows (including trade receivables). Related to the right applied to retrospectively redetermine opening equity values for the current accounting period, reference values as at 31 December 2017 are measured and entered in the financial statements as established by the previous accounting standard IAS 39, as described in Note 6.1 “First-time adoption of IFRS 9”, to be referred to.
The item, equal to €2.7 million, refers to the effect net of uses and provisions to the provision for write-down - trade, as explained in Note 14.2 “Trade receivables”, to be referred to.

18.6 Depreciation, amortisation and other write-downs

Depreciation, amortisation and write-downs totalled €573.8 million (€576.9 million in 2017). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Amortisation		
Property, plant and equipment:		
Buildings	17.2	17.4
Plant and machinery	73.6	76.5
Fixtures and fittings, tools and other equipment	3.0	2.8
Other assets	6.3	5.8
Total depreciation of property, plant and equipment	**100.1**	**102.5**
Intangible assets:		
Programmes	404.0	408.1
Software	9.4	6.2
Other intangible assets	0.3	0.4
Total amortisation of intangible assets	**413.7**	**414.7**
Amortisation of real estate investments	**0.3**	**0.3**
Total amortisation and depreciation	**514.1**	**517.5**
Other write-downs		
Programmes under amortisation	55.4	43.8
Programmes in progress	2.5	7.1
Other intangible assets	0.3	3.0
Other non-current receivables and assets	0.8	2.0
Trade receivables	-	1.8
Current income tax receivables	0.7	0.2
Other current receivables and assets	-	1.5
Total other write-downs	**59.7**	**59.4**
Total depreciation, amortisation and other write-downs	**573.8**	**576.9**

The review of the useful life of cartoons, which changed from 3 to 5 years had a positive effect of approximately €6.5 million, while the review of the useful life of programmes with a repeat utility acquired by Rai Cinema to broadcast as pay TV on-demand videos, which changed from 36 to 18 months, had a negative effect equal to approximately €3.0 million.

18.7 Provisions

Net provisions, for negative €0.7 million (positive for €3.2 million in 2017), are determined by provisions for €7.1 million (€9.1 million in 2017), compensated by absorptions for €6.4 million (€12.3 million in 2017) mainly referred to provisions for risks and charges for disputes of various kinds.

18.8 Financial income and expenses

Net financial expenses totalled €14.2 million (€8.7 million in 2017). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Financial income		
Dividends	0.1	-
Interest income from banks	0.1	-
Gains from currency valuation	0.8	1.1
Currency gains realised	(0.3)	0.8
Income from currency derivatives	0.4	0.2
Default interest on receivables from customers	0.1	5.4
Other	0.2	0.6
Total financial income	**1.4**	**8.1**
Financial expense		
Interest expense on bonds	(6.1)	(6.1)
Interest expense due to banks	(1.2)	(2.3)
Expenses on rate hedging derivatives	(0.1)	(0.1)
Expenses on exchange hedging derivatives	(0.1)	(0.2)
Losses on currency valuation	(0.9)	(0.9)
Foreign exchange losses realised	(0.4)	-
Interest on employee benefit liabilities	(4.4)	(4.6)
Other	(2.4)	(2.6)
Total financial expense	**(15.6)**	**(16.8)**
Total net financial income (expense)	**(14.2)**	**(8.7)**

18.9 Result of investments measured with the equity method

The result of investments measured with the equity method amounted to a positive €0.1 million (negative €0.5 million in 2017). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Euronews Sa	(0.6)	(1.1)
Tivù Srl	0.7	0.6
Total result of investments measured with the equity method	**0.1**	**(0.5)**

The breakdown of the change in equity investments recognised under the equity method is reported in Note 13.4 “Equity investments”.

18.10 Income tax

Income taxes totalled positive €6.3 million (negative €9.7 million in 2017). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
IRES	(32.1)	(31.8)
IRAP	(6.7)	(7.1)
Total current taxes	**(38.8)**	**(38.9)**
Deferred tax liabilities	3.0	2.1
Deferred tax assets	41.8	27.0
Total deferred taxes	**44.8**	**29.1**
Direct taxes of previous years	**0.3**	**0.1**
Total tax for the year	**6.3**	**(9.7)**

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

(€/million)	**Year ended 31 December 2018**	Year ended 31 December 2017
Gain (Loss) before tax	(6.3)	24.0
IRES tax rate	24.0%	24.0%
Theoretical tax gain (expense)	1.5	(5.8)
Taxes related to previous years	0.3	0.1
Tax differences	11.2	3.1
IRAP	(6.7)	(7.1)
Total income taxes	**6.3**	**(9.7)**

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.

19 Other information

19.1 Guarantees

Guarantees provided totalled €58.3 million (€70.7 million as at 31 December 2017). The figure breaks down as follows:

(€/million)	**Year ended 31 December 2018**			
	Surety guarantees	Other personal guarantees	Collateral	Total
Joint ventures and associates	2.6	-	-	2.6
Other	53.5	-	2.2	55.7
Total	**56.1**	**-**	**2.2**	**58.3**

(€/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**

Guarantees provided included the recognition of an obligation to pay guaranteeing the early repayment of €52.0 million of surplus VAT as at 31 December 2018 (€64.3 million as at 31 December 2017) by subsidiaries, undertaken with the Inland Revenue.

The Group has also recognised €485.7 million of guarantees provided by third parties (€447.4 million as at 31 December 2017) 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;
- for other obligations – mainly surety guarantees issued to the Inland Revenue in favour of the Parent Company to guarantee prize competitions and the VAT receivable being repaid, for surety issued to UEFA for qualifications at the European football Championships of 2020 and World football Championships of 2022.

19.2 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 2018**	Year ended 31 December 2017
Sports broadcasting rights	313.6	92.6
Investments in audiovisual works	246.4	251.6
Rights and services for the production of programmes	45.1	56.7
Technical investments	35.9	32.6
Total commitments	**641.0**	**433.5**

19.3 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 companies 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 alleged defamation and infringement of personality rights, while claims for damages 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;
- and 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.

As regards labour and social security litigation, Group Companies are involved in a considerable number of cases, mainly concerning requests for re-employment, 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.

Note 16.3 "Provisions for non-current risks and charges" details provisions made for that occurrence.

On the basis of information currently available, the Group believes that provisions for risks are adequate.

19.4 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 2018 and 31 December 2017.

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 associates and joint ventures with which the Group has an interest as indicated in Note 13.4 "Shareholdings"; companies under the control or joint control of Senior Management and bodies that manage benefit plans after the work relationship ends and solely for 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 of the Parent Company, see Note 18.3 "Costs for the purchase of consumables, costs for services and other costs".

The follow table details the balance sheet totals as at 31 December 2018 and as at 31 December 2017 and the income effects of transactions between the Group and related parties conducted in the years ended 31 December 2018 and 31 December 2017 and obviously excluding those between Group companies, consolidated on a line-by-line basis:

(€/million)	Senior Management	Other related parties	Total
Current financial assets			
As at 31 December 2018	-	-	-
As at 31 December 2017	-	0.5	**0.5**
Current trade receivables			
As at 31 December 2018	-	0.2	**0.2**
As at 31 December 2017	-	0.2	**0.2**
Other current receivables and assets			
As at 31 December 2018	0.1	-	**0.1**
As at 31 December 2017	0.2	-	**0.2**
Employee benefits			
As at 31 December 2018	(4.8)	(14.7)	**(19.5)**
As at 31 December 2017	(5.1)	(14.7)	**(19.8)**
Trade payables			
As at 31 December 2018	-	(5.6)	**(5.6)**
As at 31 December 2017	-	(4.3)	**(4.3)**
Other current payables and liabilities			
As at 31 December 2018	(7.5)	(15.8)	**(23.3)**
As at 31 December 2017	(9.4)	(12.7)	**(22.1)**
Current financial liabilities			
As at 31 December 2018	-	(0.1)	**(0.1)**
As at 31 December 2017	-	-	**-**

(€/million)	Senior Management	Other related parties	Total
Revenue from sales and services			
As at 31 December 2018	-	0.7	**0.7**
As at 31 December 2017	-	0.7	**0.7**
Other revenue and income			
As at 31 December 2018	-	0.1	**0.1**
As at 31 December 2017	-	0.1	**0.1**
Costs for services			
As at 31 December 2018	(0.9)	(10.7)	**(11.6)**
As at 31 December 2017	(0.8)	(10.5)	**(11.3)**
HR expenses			
As at 31 December 2018	(21.9)	(13.5)	**(35.4)**
As at 31 December 2017	(23.1)	(13.8)	**(36.9)**

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 for example licences for use on home video and commercial video), 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, including: classical music, prose works and music 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; and
(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:
(a) control transmission and broadcasting, in Italy and around the world, over the MUX assigned to it under applicable law; and
(b) 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 services 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, 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.

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 Group 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 2018. 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 agreements:

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. Rai has also established a credit facility for €1.4 million that the company can use for overdrafts from ordinary management. 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 contribution is made to San Marino RTV through Rai Com.

Tivù Srl

Service agreements are in place, under which:
- Rai: provides electronic program guide (EPG) processing and management services and editorial and advisory services, as well as satellite transmission capacity to enable the offer of EPG services;
- through Tivù Srl: provides an EPG service for the digital terrestrial and satellite platforms and an encryption service.

Auditel Srl

Auditel Srl provides television audience share measurement and data publication services.

Tavolo Editori Radio Srl

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

20 Subsequent events

2019-2021 Business Plan

In its meeting of 6 March last, the Board of Directors approved the Business Plan in which – besides outlining the strategic actions for company growth – ample space was dedicated to the evolution of the media world and how that evolution impacts on Rai's future.

The scenario Rai operates in is changing considerably and it is evident that Rai cannot and must not move solely applying market logics. Being a Public service means it is in a specific delicate position, not only for the importance of programme quality but also for the stimulus role it is required to have to drive the entire Italian audio-visual sector. Rai is assigned a number of challenging goals, fundamental for its Public Service role: from protecting pluralism and minorities, from social inclusion to that of driver of technological change.

The Business Plan, transmitted to the Ministry of Economic Development for their decisions, is ambitious as it has to centre all tasks entrusted to the Public Service; and, because it intends to return Rai to being a protagonist of the digital world in which new, important aggressive competitors are operational.

The change path awaiting Rai moves through the need to win some essential challenges for redefining its positioning and the way to be on the market: above all, that of improving understanding of user needs to best fulfil its Public service role. Intercepting the habits and interests of the young generations that do not choose the TV as a reference media is relevant for "conquering" tomorrow's consumers and making the Rai offer more consistent with the expectations of that public, guiding them from the traditional offer, where Rai is leader, to the digital one in which we must grow.

The main challenges include: digitalising the offer, to recover the market gap, especially in the News Area; processing and creating distinctive, innovative content, designed specifically for digital platforms, thus de-linking from a culture till now not surprisingly focussed on broadcasting; a organisational change that helps change and optimises resources; and, lastly, in terms of return to the public, managing, with the same resources, expansion of the scope of the Service Agreement, reviewing production models, in particular, the internal relationship between editor and production.

In brief, the Plan – based on everything that has been done in recent years to digitalise the offer – responds to the goal to manage the Rai switch-over to digitalised Public Service media company, focussing on 4 transformation areas:

a) *Place users and content at the centre* – group initiatives to create operating and organisational assumptions for more complete, effective control of interaction with users, optimise content investments and make the production of national content an element of competitive difference compared to what international groups offer.
b) *Bridge the Digital Gap* – include initiatives that enable development of the News offer both digitally and editorially on new digital platforms innovating contents and technological functionalities of the digital distribution platforms.

c) *Finance transformation* – include initiatives that will contribute to identifying resources to finance all the other strategic actions, on which the growth prospects of the 2019-2021 Plan are based and in compliance with the Service Agreement.
d) *Control the enabling factors* – is the container of strategic actions that ensure the presence and effectiveness of all resources (technological, real estate, human) needed to allow Rai to launch and govern the transformations presented by the strategic actions.

The philosophy behind the vision the Plan is based on responds to the need to change, to carry on being a cultural reference point for the country; innovating, respecting Service Agreement boundaries, local identities, the need to include and support, also abroad, the Italy system.

Setting of television licence fees

On 4 February 2019, the Decree of the Ministry for Economic Development dated 28 December 2018 was published in the Official Gazette, containing provisions for “Special television licence fees for 2019”. The Decree sets the amounts of special licence fees for the current year for possession of radio receivers or television sets on non-household premises and 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.

Measures related to Company personnel

As a result of the favourable opinion of the Company’s management body, in the meeting of 24 January 2019 Rai updated the criteria and methods used to recruit personnel and appoint external collaborators.
Furthermore, implementing art. 24 of the 2018-2022 Service Agreement, the Board of Directors approved the document “Human Resource Management and development Plan”.

Tax litigation Rai Pubblicità

In February 2019, the Tax Revenue Office gave a negative opinion on the tax deductibility of losses for VAT paid in 2017 for the settlement concession of tax litigation concerning VAT originating from assessment notices issued to Rai Pubblicità in December 2016. The outcome did not have effects on the financial position or performance of 2018, as these items had been considered, on a prudential basis, as non-deductible. The Company, assisted by reliable consultants, is assessing further action to take.

In March 2019, the Company decided, in agreement with the Parent Company, to apply for the settlement concession of pending tax litigation, pursuant to article 6 of Decree Law 119/2018 amended by Law 136/2018, for some tax litigation cases outstanding as at 31 December 2018. The relative effects are already recognised in the Consolidated Financial Statements.

21 Reconciliation between the Separate and Consolidated Financial Statements

The analysis of items reconciling the result of the income statement and shareholders' equity of the Separate Financial Statements and respective figures of the Consolidated Financial Statements is presented below:

(€/million)	Profit/(loss)		Shareholders' equity	
	2018	2017	2018	2017
Rai financial statements	(33.8)	5.5	767.6	808.4
Elimination of the value of equity investments against respective shareholders' equity and of dividends distributed against profits for the year	33.1	8.8	(314.0)	(326.6)
Adjustment of deferred taxes on the Rai Way equity investment revaluation	-	-	5.0	5.0
Other consolidation adjustments	0.7	-	(5.6)	(6.7)
Consolidated Financial Statements	0.0	14.3	453.0	480.1
of which non-controlling interest	21.0	19.7	63.6	61.8

22 Appendix

22.1 Rai equity investments in subsidiaries

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

The above investments had not changed as at 31 December 2018 compared to the situation as at 31 December 2017.

Values as at 31 December 2018	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) value in USD;
(2) value in USD/'000;
(3) ordinary shares with no stated par value.

The market value of Rai Way shares as at 28 December 2018 was €4.34.

22.2 Net financial consolidated indebtedness

Net financial position, as measured in accordance with the recommendations of paragraph no. 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 2018**	Year ended 31 December 2017
A. Cash	0.3	0.3
B. Other cash equivalents	91.9	227.7
C. Securities held for trading	-	-
D. Liquidity (A+B+C)	**92.2**	**228.0**
E. Current financial receivables	**6.5**	**7.2**
F. Current bank debt	-	-
G. Current portion of non-current debt	(10.2)	(40.1)
H. Other current financial debt	(5.8)	(0.7)
I. Current financial debt (F+G+H)	**(16.0)**	**(40.8)**
J. Net current financial position (D+E+I)	**82.7**	**194.4**
K. Non-current bank loans	(15.2)	(55.3)
L. Bonds issued	(348.7)	(347.8)
M. Other non-current financial indebtedness	(5.3)	(0.3)
N. Non-current financial debt (K+L+M)	**(369.2)**	**(403.4)**
O. Net consolidated financial indebtedness (J+N)	**(286.5)**	**(209.0)**

22.3 Law 124 of 4 August 2017 - transparency in the public contributions system

Related to the information obligations introduced by article 1 of Law 124 of 4 August 2017, in view of orientation expressed by Assonime in its circular no. 5 of 22 February 2019, while awaiting for coordination with laws in force to be completed, please note the following.

Grants received (art. 1, paragraph 125)

The following table shows sums collected during 2018 which come under the scope of IAS 20 "*Accounting for Government Grants and Disclosure of Government Assistance*", which are not attributable either directly or indirectly to public entities of foreign states, in the case where the total amount collected by the entity is equal to or higher than €10 thousand.

(in €/'000)	Grant collected in 2018	Amount
Autonomous region of Sardinia	Protection of linguistic minorities	100
Autonomous region of Sardinia	Project "La Pimpa parla Sardo" (Pimpa speaks Sardinian)	33
Ministry of Cultural Heritage and Activities	Grant as a percentage of takings Ministerial Decree 16-7-2004	24

As regards the accrual basis criterion, the item other revenues and income includes €2,383 thousand for "Tax Credit distributors", granted by the Ministry of Cultural Heritage and Activities to Rai Cinema with reference to Law no. 220 of 14 November 2016. Of this amount, €2,000 thousand was financially offset in 2018 against amounts owing for various taxes and payments.

Contributions made (art. 1, paragraph 126)

The following table includes sums paid in 2018 con for donation purposes, for the cases with a value per entity contributed that is higher or equal to €10 thousand, showing the beneficiary entity.

(in €/'000)	Grant paid in 2018	Amount
Committee for assistance/cultural/ recreational activities established in compliance with article 11 of Law no. 300 of 20 May 1970 "Workers' Statute"		64
Associazione Dopolavoro Ferroviario di Genova (Genoa Railway Workers' Leisure Association)	Pro sfollati di Via Porro e Via Campasso (Pro displaced persons of Via Porro and Via Campobasso)	50
Associazione centro italiano studi superiori formazione e aggiornamento giornalisti radiotelevisivi (Italian centre for higher education for TV and radio journalists)	Borse di studio Ezio Trussoni (Ezio Trussoni Study Grants)	24
Association "Associazione amici di Roberto Morrione",	Roberto Morrione Award	20
Guglielmo Marconi Foundation	Sostegno al Museo Guglielmo Marconi (Guglielmo Marconi Foundation to support the Guglielmo Marconi Museum)	10

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

The undersigned Fabrizio Salmi, in the capacity as Chief Executive Officer, 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 2018.

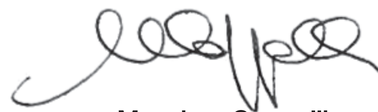
The administrative and accounting procedures and operating practices in place have been applied in a manner consistent with the internal administrative and accounting control system to ensure the achievement of the objectives required by the applicable regulatory framework.
It is also attested that:

- the Consolidated Financial Statements of the RAI Group at 31 December 2018:
  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, 9 May 2019

Fabrizio Salini
Chief Executive Officer



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

External 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 2018, the consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement for the year then ended, statement of changes in consolidated equity 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 2018, 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.

Key Audit Matters	*Auditing procedures performed in response to key audit matters*

PricewaterhouseCoopers SpA

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Evaluation of the recoverability of investments in programmes

"Valuation criteria" paragraphs "Intangible assets" and "Impairment of non-financial assets" and Note 13.3 "Intangible assets" of the consolidated financial statements as at 31 December 2018

The item "Intangible assets" of the consolidated financial statements of the RAI Group as at 31 December 2018 includes programmes totalling Euro 881.7 million (of which Euro 252.2 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 the estimate made by the management of the RAI Group in order to relate the abovementioned amortisation to revenue from core business.

The recoverability of investments in programmes is verified by the RAI Group management at least at each year-end.
If events are identified which lead to presume an impairment loss on investments in programmes, their recoverability is verified by comparing the book value with the corresponding recoverable amount, determined on the basis of assumptions about their future use.

The evaluation of the recoverability of investments in programmes represented a key matter in our audit strategy given the significance of this item in the consolidated financial statements as at 31 December 2018, 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 RAI Group with reference to investments in programmes:

i) discussions with the contact persons of the RAI Group regarding their conclusions on the existence of possible impairment losses in the item "programmes";

ii) analysis of the assumptions underlying the identification of the impairment losses in programmes and of the reasonability of the related write-downs performed by the RAI Group management;

iii) 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;

iv) comparative analysis and examination by discussions with the corporate functions about the most significant differences compared with the previous year values and review of documents, on a sample basis, regarding the increases and decreases in the item "programmes";

v) 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;

vi) verification of the accuracy and completeness of the disclosures provided in the notes to the consolidated financial statements.

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, 30 May 2019

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:	Euro 242.518.100,00 fully paid in
Registered office in Rome:	Viale Giuseppe Mazzini, 14 00195 - Roma
Project by:	Direzione Finanza e Pianificazione
Advisory services:	Ergon Com