Rai Way

Annual Report 2016

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COMPANY NAME, SHARE CAPITAL AND REGISTERED OFFICE

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

Subject to management and coordination by Rai - Radiotelevisione Italiana S.p.A.

CORPORATE BODIES AND COMMITTEES [1]

Board of Directors

Chairman
Raffaele Agrusti

Managing Director
Stefano Ciccotti

Directors
Joyce Victoria Bigio
Fabio Colasanti
Alberto De Nigro
Anna Gatti
Valerio Zingarelli

Secretary to the Board
Giorgio Cogliati

Control and Risks Committee
Committee
Joyce Victoria Bigio (Chairman)
Fabio Colasanti
Alberto De Nigro

Board of Statutory Auditors

Chairman
Maria Giovanna Basile

Standing Auditors
Giovanni Galoppi
Massimo Porfiri

Substitute Auditors
Roberto Munno
Nicoletta Mazzitelli

External Auditors

PricewaterhouseCoopers S.p.A.

Remuneration and Appointments

Anna Gatti (Chairman)
Joyce Victoria Bigio
Fabio Colasanti

[1] In office at the effective date of this report.

Information concerning the powers assigned within the Board of Directors and the Company's system of corporate governance may be found in the Report on Corporate Governance and Ownership Structures which may be consulted on the Company's website (www.raiway.it).

LETTER TO SHAREHOLDERS

Dear Shareholders,

2016 was a year in which Rai Way strengthened its position in the Italian broadcast and mobile communication infrastructure sector. A number of activities were performed during the year from a technological, commercial and operational standpoint.

The new optic fiber network was completed during the first few months as part of a transmission network development project designed to satisfy the new requirements of the Company's main customer, Rai, following the digitalization of the production facilities and the need to transport an increasingly high number of HD contents (news, sport, fiction, etc.). In addition, Rai Way reconfigured and enriched its broadcasting services in 2016, supporting Rai in the launch of the HD version of Rai 1, Rai 2 and Rai 3 channels on digital terrestrial and initiating activities for transmitting the entire Rai's offer on the satellite platform in HD.

In line with the targets of the business plan, there was significant increase in demand for hosting and activations from FWAP customers (Fixed Wireless Access Providers) during the year, while the Company also intensified its commercial action towards television and radio broadcasting customers. In this context Rai Way renewed the agreement for the provision of tower rental services with one of the leading operators in the FWAP market.

The year marked the start-up of the initiatives in the IoT (Internet of Things) sector and more specifically in the Smart City area. The excellent results achieved from tests carried out at a number of local zones throughout the country created the foundations for assigning a central role to the Company in the development of IoT networks on the basis of a "federative" approach. The tests conducted by Rai Way for creating Low Power Wide Area Networks (LPWANs), generally using high performance LoRa technology, confirmed the suitability of its infrastructures in developing IoT services both at local level and on a national scale.

As concerns the international activity, Rai Way created and started up a service for distributing Rai television signals in Australia and North and South America through fiber optic and satellite, and provided contribution services for the summer Olympic and Paralympic games in Rio de Janeiro and the European football championship in France using highly reliability technological solutions and guaranteeing technical support on the spot.

From an operational standpoint the Company continued its effort on further improving efficiency on costs and investments.

The year was also characterized by the consolidation of a new Company's organizational model directed towards business and innovation, key levers to develop a business culture simultaneously motivated by generational change and internal staff involvement and consistent with the best market standards; within this perspective the focus on innovation was driven by the development of talent management systems (with the introduction of succession plans), the upgrading of processes to support quality management system, with relative certification, and the implementation of reward initiatives, focalizing on technical excellence, efficiency and the enhancement of the corporate social dimension.

The Company posted revenues and adjusted EBITDA of € 215.2 million and € 111.3 million respectively in 2016, an increase over the previous year mainly due to the additional services provided to Rai.

Net profit for the year reached € 41.8 million, up by 7.4% over 2015, benefiting from the improvement in adjusted EBITDA and the reduction in depreciation and amortization which more than offset non-recurring expenses arising mostly from the retirement incentive scheme. The decrease in depreciation by 18.8% over 2015 was driven by a reduction and optimization of investments as well as by an extension of the useful life of assets involved with transmission network and radio links, now in line with market benchmarks.

The positive trend of the Company's net financial position confirmed the business's high level of cash generation, reaching a net debt to adjusted EBITDA ratio close to zero thereby ensuring flexibility for benefitting from potential market opportunities in the future.

Rai Way's 2016 financial results confirm the effectiveness of the measures taken during the year.

Rome, 9 March 2017

On behalf of the Board of Directors

The Chairman

Raffaele Agrusti

PROPOSAL TO THE SHAREHOLDERS' MEETING

Annual financial statements for the year ended 31 December 2016; Report on Operations of the Board of Directors; Report of the Board of Statutory Auditors and Report of the Independent Auditors. Relative resolutions.

Shareholders,

The Annual Financial Report at 31 December 2016 containing the Company's draft annual financial statements for the year ended 31 December 2016 together with the Report on Operations of the Board of Directors and the attestation pursuant to article 154-bis, paragraph 5 of Legislative Decree no. 58 of 24 February 1998 will be made available to the public by the means (including publication on the Company's website www.raiway.it under the section Corporate Governance/Ordinary Shareholders' Meeting of 28 April 2017) and within the time periods laid down by law (from 7 April). The same holds for the Report of the Board of Directors and the Report of the Independent Auditors.

Remitting to those documents we invite you to approve the annual financial statements for the year ended 31 December 2016 (which close with a profit for the year of € 41,814,299.34), proposing the following resolution:

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

having examined the Report on Operations of the Board of Directors;

acknowledging the Report of the Board of Statutory Auditors and the Report of the External Auditors PricewaterhouseCoopers S.p.A.;

having examined the draft annual financial statements for the year ended 31 December 2016 prepared by the Board of Directors, which close with profit for the year of € 41,814,299.34;

resolves

to approve the annual financial statements for the year ended 31 December 2016."

Rome, 9 March 2017

On behalf of the Board of Directors

The Chairman

Raffaele Agrusti

Proposal for allocation of profit for the year and the partial distribution of retained earnings. Relative resolutions.

Shareholders,

Taking into account the net profit for the year of € 41,814,299.34, as stated in the financial statements for the year ended 31 December 2016, and the other items included in those financial statements, we propose to you the following:

I. to allocate € 2,090,715 of the 2016 net profit to the legal reserve and distribute the remainder of € 39,723,584.34 to shareholders as a dividend;

II. to allocate a further amount of € 2,082,815.66 for distribution to shareholders, to be taken from the retained earnings reserve (which would then be left with a remaining balance of € 366,747.70); as the result of the provisions of article 47 of the Consolidated Income Tax Act and article 1 of the Ministerial Decree of 2 April 2008, this amount shall be considered to be taken entirely from the part of the reserve created with profits earned through the year ended 31 December 2007;

III. as a consequence, and on the basis of the total amount of € 41,806,400.00 to be distributed to shareholders, to pay a total gross dividend of € 0,1537 to each of the outstanding ordinary shares to be put into payment from 24 May 2017, with entitlement to payment, pursuant to article 83-terdecies of Legislative Decree no. 58/1998 and article 2.6.6, paragraph 2 of the Rules of the Markets organized and managed by Borsa Italiana S.p.A., on 23 May 2017 (the record date) and after detaching coupon no. 3 on 22 May 2017 (the ex-dividend date).

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

“ Having examined the illustrative report of the Board of Directors, the Shareholders’ Meeting of Rai Way S.p.A.

resolves

1. to allocate € 2,090,715 of the 2016 net profit to the legal reserve and distribute the remainder of € 39,723,584.34 to shareholders as a dividend;

2. to allocate a further amount of € 2,082,815.66 for distribution to shareholders, to be taken from the retained earnings reserve;

3. as a consequence, to pay a total gross dividend of € 0,1537 to each of the outstanding ordinary shares to be put into payment from 24 May 2017, with entitlement to payment, pursuant to article 83-terdecies of Legislative Decree no. 58/1998 and article 2.6.6, paragraph 2 of the Rules of the Markets organized and managed by Borsa Italiana S.p.A., on 23 May 2017 (the record date) and after detaching coupon no. 3 on 22 May 2017 (the ex-dividend date).”

Rome, 9 March 2017

On behalf of the Board of Directors

The Chairman

Raffaele Agrusti

RAI WAY'S ACTIVITIES

Rai Way (hereafter the Company) operates in the communications infrastructure sector providing integrated services to its customers. More specifically, Rai Way is the Company of the Rai Group owning the Group's infrastructure and television and radio signal transmission and broadcasting equipments.

The origins of the Company's activities go back to 6 October 1924, when what was then URI-Unione Radiofonica Italiana, the progenitor of today's Rai, broadcasted the opening concert, thereby officially initiating radio transmissions in Italy. Following the formal establishment of the Company in 1999 and the subsequent contribution by Rai (hereafter also the Parent Company or Parent) of its "Transmission and Broadcasting Unit" in 2000, today's Rai Way has acquired a heritage of technological, engineering and management know-how, as well as infrastructure, that has matured over ninety years of activity. The Company now manages the technical infrastructure enabling it to broadcast radio and television programs to the Italian population and provides a vast range of highly complex technical services to its customers, including the Parent Rai.

Rai Way is the owner of the network which is required inter alia for the transmission and broadcasting of audio and video contents in Italy and abroad, not only by Rai for fulfilling its Public Service obligations, but also by third party operators. In particular, in carrying out its activities, the Company operates over 2,300 sites equipped with infrastructure and systems for transmitting and broadcasting radio signals throughout the whole of Italy, has 23 operating facilities distributed across the country and avails itself of a highly specialized workforce consisting of more than 600 people. Its technological assets and specialist know-how are the key resources for the Company not only for its present service offering but also for the development of new activities.

The services that the Company provides can be divided into the following four types of activity:

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

(ii) Transmission services for the transmission of radio and television signals via the connecting network (radio links, satellite systems, fibre optic) and in particular the one-way transport (a) between fixed sites of video/audio/data via analog or digital circuits and (b) of the radiofrequency signal from the satellite within a geographical area of a suitable size, and connected services;

(iii) Tower Rental Services, meaning (a) the hosting in our sites of transmission equipments related to radio, television, mobile telephony and telecommunications signals and (b) services for the management and maintenance of the transmission equipment hosted and (c) complementary and connected services;

(iv) Network Services, which consist of a vast range of heterogeneous services which the Company is able to provide in relation to electronic and telecommunications networks in general (by way of mere example planning, construction, installation, maintenance and management activities as well as consultancy, monitoring and radio protection services).

The type of customer who comes to Rai Way for the above-mentioned services can be conventionally classified as being in the category of Broadcasters (national and local radio and television broadcasters, including also Rai), Telecommunications Operators (mostly mobile network operators) or Public Administration and Corporate Entities (a catch-all residual category to include national and regional administrative entities of the Republic of Italy and non-physical persons).

MAIN ALTERNATIVE PERFORMANCE MEASURES

The Company assesses performance on the basis of certain measures not considered by IFRS. As required by CESR Recommendation 05-178b the components of these measures that are of importance to the Company are set out in the following paragraphs.

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

SUMMARIZED ECONOMIC AND FINANCIAL DATA

The following section provides summarized information on Rai Way's results of operations for the year ended 31 December 2016 and a comparison with the figures for the year ended 31 December 2015. The Company's net financial position and invested capital at 31 December 2016 are also provided together with comparative figures for the end of the previous year. The differences and percentages shown in the following tables have been calculated using the amounts expressed in euros.

(in euro million; %)	2016	2015	Delta	Change %
Key income statement data				
Core revenues	215.2	212.3	2.9	1.4%
Other revenues and income	0.4	0.3	0.1	34.8%
Operating costs	(57.7)	(57.2)	(0.6)	(1.0%)
Adjusted EBITDA	111.3	109.3	2.0	1.8%
EBIT	65.6	61.9	3.7	6.0%
Profit for the year	41.8	38.9	2.9	7.4%
Key balance sheet data				
Capital expenditure	19.5	30.1	(10.6)	(35.3%)
of which maintenance capex	16.2	18.1	(1.9)	(10.5%)
Invested capital	171.0	200.9	(29.9)	(14.9%)
Net equity	161.5	159.3	2.3	1.4%
Net financial position	9.4	41.6	(32.2)	(77.3%)
of which cash	(81.3)	(78.9)	(2.4)	(3.0%)
Key ratios				
Adjusted EBITDA/Core revenues (%)	51.7%	51.5%	0.2%	0.4%
Profit for the year/Core revenues (%)	19.4%	18.3%	1.1%	5.9%
Maintenance capex/Core revenues (%)	7.5%	8.5%	(1.0%)	(11.7%)
Cash conversion rate (%)	85.5%	83.5%	2.0%	2.4%
Net financial position/Adjusted EBITDA (%)	8.5%	38.1%	(29.6%)	(77.7%)

- Core revenues amounted to € 215.2 million, representing an increase of 1.4% over 31 December 2015.
- Adjusted EBITDA came to € 111.3 million, up by € 2.0 million over 31 December 2015, mainly due to the effect of increased revenues from Rai of € 2.9 million partially offset by higher operating costs and personnel costs of € 1.1 million. The Company defines this measure as EBITDA adjusted for non-recurring expenses.
- The ratio between core revenues and adjusted EBITDA was 51.7% compared to 51.5% at 31 December 2015.
- Operating profit (EBIT) amounted to € 65.6 million, an increase of € 3.7 million over the figure posted at 31 December 2015.
- Profit for the year was € 41.8 million, up by 7.4% over 31 December 2015.

- Capital expenditure of € 19.5 million relates to the maintenance of network infrastructure and development projects.
- Invested capital amounted to € 171 million, with a net financial position of € 9.4 million and a shareholders' equity of € 161.5 million.

REPORT ON 2016 OPERATIONS

General indications and the overall performance of the economy

The performance of the economy in 2016 confirmed a global growth rate of around 3% on the basis of the latest estimates. After posting a negative trend for several years the emerging economies achieved growth in 2016 in line with the previous year, while in the advanced countries economic activity reversed the trend seen in previous periods, slowing down slightly over 2015[2] .

In all the leading advanced countries – with the exception of Italy, Germany and Canada – the economy recorded constant growth rates or rates lower than those achieved in prior years. GDP in the United States is estimated to have grown by 1.6% in 2016 compared to 2.6% in 2015 due to a slowing down in consumer spending, investment expenditure and stocks, albeit with a gradual improvement in the second half of the year. Any reversal of the trend will depend on the economic policy decisions implemented by the new administration, which are currently being drawn up. In the eurozone expansion of activities is continuing at a moderate rate due to the positive effect resulting from the trend in domestic demand. Growth consolidated in the summer period thanks to a strengthening of consumption, public spending and change in inventory.

In 2016 the Chinese economy grew at rates slightly above expectations to close at 6.5%, according to the latest estimates, in light of the country's expansionary fiscal and monetary policies; the recession in the Brazilian and Argentinian economies led to a deterioration in economic activities in South America in 2016 estimated at -0.7%. Russia is also in recession, although its GDP fell by less than expected, mainly as the result of trends in oil prices which have laid the basis for a return to growth in 2017.

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[2] World Economic Outlook Update; January 2017; International Monetary Fund

After bottoming out during the first few months of 2016 oil prices have been gradually rising; this trend strengthened, above all, in the final quarter of the year following the agreement reached between the OPEC countries and Russia to reduce production quantities; the positive effects of this agreement, though, are not enough to dispel uncertainties about changes in future oil prices, which could be affected by tension between the very countries that subscribed to the agreement, weakness in global demand and a pick-up in production in the United States.

Expansionary monetary policy measures continued in Europe, the United Kingdom, Japan and the leading emerging countries. In particular, the ECB's expansionary monetary policy and the increase in energy prices in the last part of the year have led to a gradual increase in inflation, although we are not yet seeing a constant rising trend; in any case the risk of deflation appears to a large extent to have been resolved. In the United States the Fed increased interest rates by a quarter of a point in December 2016 following the increase announced in December 2015, again of a quarter of a point. Inflation dynamics in the advanced countries pointed to a pick-up, above all in the last part of 2016, due to the above-mentioned rise in oil prices and the stabilization of raw material costs; but inflation rates still remain below objectives.

In 2017 the world economy is forecast to grow at a rate exceeding 2016 as the result of an improvement in both the advanced economies and the emerging countries.

In 2016 Italy's GDP rose by 0.9% over the previous year; correcting this for the effects of the calendar, with 2016 having two fewer working days than 2015, this increase rises to 1.0%. The Italian economy benefitted from an increase in investments, due to an improvement in conditions in the credit market, and a rise in domestic consumption. These positive factors counter-balanced change in inventory and the weakening of net foreign demand.

Inflation was close to zero throughout the whole of 2016, with a positive sign of a pick-up arriving in December when consumer price rises for the country as a whole posted an increase of 0.5% over December 2015 and 0.4% over the previous month; this was mainly the result of an increase in energy prices, as well as the unprocessed food and transport prices.

Labor market conditions stabilized in the second half of the year after the significant rise in the first six months. The unemployment rate in Italy closed at approximately 12% in December 2016, returning to levels seen at the beginning of 2015, while average hourly pay rose by 0.6%[3]. Industrial activity expanded and it is estimated that overall growth of approximately 1% was achieved over 2015 .

Positive movements continued in household loans granted by the banking sector in 2016, while figures were essentially stable as far as the business sector as a whole is concerned. Borrowing costs continued to fall to reach historical lows; the gradual improvement in economic activity is reflected favorably in loan quality which is also beginning to benefit from the slight improvement in the capital ratios of the country's banking system posted in the second half of the year and the measures introduced by the government, which approved the funding of measures to support the liquidity of bank capital.

According to forward-looking indicators the recovery will strengthen in 2017, above all due to an expansion in investments, aided by the support measures introduced by the government, and an increase in exports, driven by the depreciation of the Euro.

The Company's reference market

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

- DTT (Digital Terrestrial Television, free and pay television),

[3] Economic Bulletin 1 / 2017; Bank of Italy

- DTH (satellite),
- IPTV (internet),
- cable TV.

Compared to the other countries of Western Europe, Italy is characterized by having a widespread diffusion of the DTT platform, far more than the others. In the other countries, the reduced extent of the use of the DTT platform is due to a broader and more competitive presence of satellite platforms (e.g. in the United Kingdom and Germany), cable (e.g. Germany) and IPTV (France). The solid positioning of DTT in the Italian broadcasting scenario is further supported by the absence of cable TV (at a European level operators capable of providing television services via cable usually represent the strongest competitors on the market, as regards both television and broadband) and the still undeveloped penetration of IPTV, whose poor diffusion is among other things due to the limited presence of fast broadband networks capable of supporting the relative services.

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

As a consequence of the features of its network, Rai Way is able to provide its customers with tower rental services. In this respect Rai Way operates in the telecommunications towers sector which has two independent operators (INWIT and Cellnex) and the captive portfolios owned by Vodafone and 3 Italia.

Given the characteristics of its network Rai Way is able to provide customers with tower rental services. In this area the Company operates in the telecommunication towers sector that includes two leading independent operators (INWIT and Cellnex), the tower portfolios directly owned by the Mobile Network Operators (MNOs) and EI Towers.

Rai Way on the financial markets

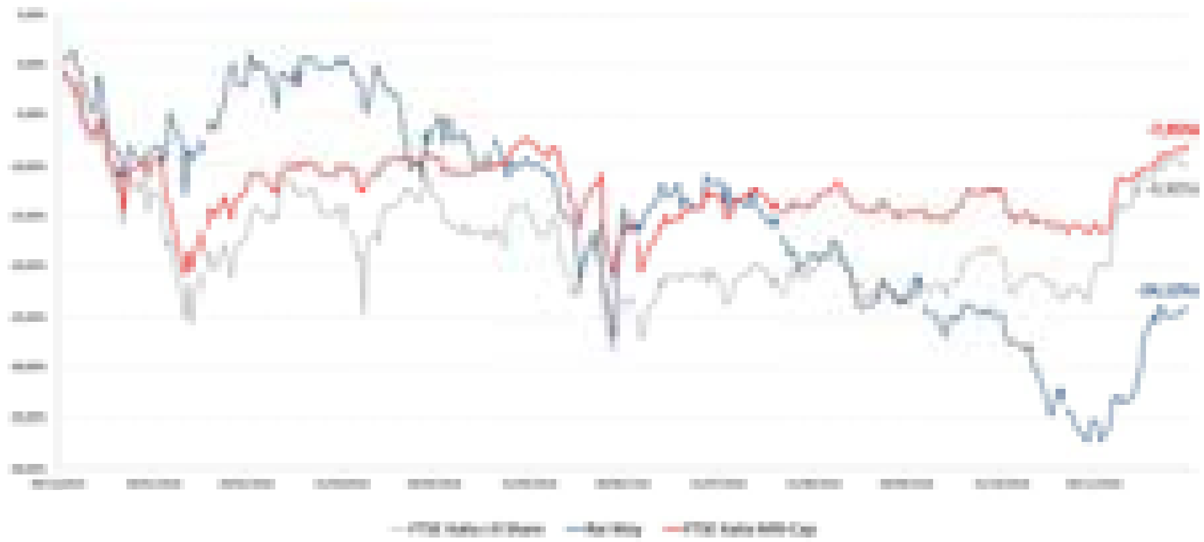
The Italian equity market (the FTSE Italia All-Share Index) fell by 9.9% in 2016. The financial year was marked by persistent volatility, caused by factors such as the slowdown in the economic recovery, fluctuating oil prices, market instability concerning the Italian banking system and the outcome of the Brexit vote in the United Kingdom and the constitutional referendum in Italy.

The significant rise in the raw materials and technology markets was matched by a drop in banking and telecommunications sectors.

The spread between 10-year Italian BTPs and German Bunds ended the year at 161 basis points, representing an increase of 95 basis points over the figure at the end of 2015.

Rai Way's shares, which have been listed on the Borsa Italiana Electronic Stock Market since 19 November 2014 following completion of the Global Offering, performed negatively in 2016, with the price decreasing by 24.1% (-21.1% adjusted for the dividend payment) compared to a fall of 9.9% in the FTSE Italia All-Share index and 8.0% in the FTSE Italia Mid-cap index. This performance, heightened by the limited liquidity characterizing the share during the year, was affected by an inverse correlation with interest rates, as well as the above-mentioned factors of uncertainty on the market.

Rai Way ended 2016 with a market capitalization of € 973.8 million.



The following table sets out key market figures:

Key market figures		
General data	ISIN	IT0005054967
	Number of shares	272.000.000
	Floating capital	35,03%
Price (Eur; %)	Price on placement (19/11/2014)	2.95
	Price at 31/12/2015	4.718
	Price at 31/12/2016	3.58
	Performance at 31/12/2016 vs. placement	+21,36%
	Performance at 31/12/2016 vs. 31/12/2015	-24,12%
	2016 Price maximum (closing)	4.786
	2016 Price minimum (closing)	2.958
Volume ('000)	2016 average volume	90.54
	2016 maximum volume	782.851

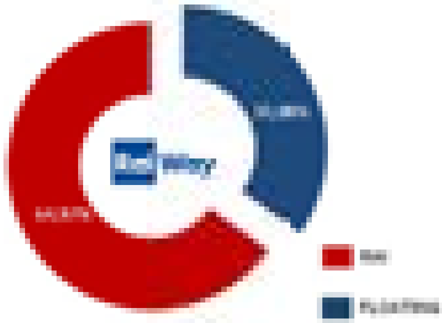
	2016 minimum volume	7.654
Market capitalization (Mln Eur)	Capitalization on placement (19/11/2014)	802.4
	Capitalization at 31/12/2015	1,283.3
	Capitalization at 31/12/2016	973.8

Shareholding structure

The percentage of Rai Way's share capital held by Rai-Radiotelevisione Italiana S.p.A. fell by 0.102% in 2016 as the result of the allocation to entitled shareholders – as stated in the Prospectus on the Initial Public Offer and admission to and listing on the Electronic Stock Market – of bonus shares made available by the Selling Shareholder Rai - Radiotelevisione Italiana S.p.A..

More specifically, the recipients of Rai Way shares included in the tranche of the Public Offer reserved for the public at large who had been holders of the shares continuously for twelve months from the Payment Date (19 November 2014) vested the right to receive one of the Company's ordinary shares for every twenty shares allocated as part of the Public Offer, while the recipients of the shares included in the tranche of the Public Offer reserved for employees of the Rai Group resident in Italy who had been holders of the shares continuously for twelve months from the Payment Date (19 November 2014) vested the right to receive one of the Company's ordinary shares for every ten shares allocated as part of the Public Offer.

Following allotment, 191,567 ordinary shares were granted as bonus shares to the public at large and 87,323 ordinary shares to the Rai Group's employees.



Trading perfomance

The most important initiatives taken by the Company in 2016 were the negotiation and supply of additional services for Rai, in accordance with the service agreement, the renewal of the contract with EOLO S.p.A. and the agreement entered with a national radio network for tower rental services.

The service agreement between Rai and Rai Way additionally provides for and governs the possibility for the parties to negotiate the provision of further services should Rai have any additional requirements in the future, meaning services designed to develop new electronic communications and telecommunications networks or new transmission technologies and standards.

The most important services provided in 2016 were transportation services for the contribution of the signals of the summer Olympic and Paralympic games in Rio de Janeiro and of the European football championships in France, for which Rai Way provided technological solutions using optic fiber networks and technical support on the spot, with the constant guarantee of an optimum level of reliability. In addition, the new optic fiber network based on JPEG2000 coding technology and IP/MPLS transportation was completed, integrated by the terrestrial television contribution currently in use; this service forms part of the project to develop the transmission networks aiming to satisfy Rai's new requirements following the digitalization of the production facilities and the need to transport high definition contents (news, sport, fiction etc.). The launch of the HD version of the Rai 1, Rai 2 and Rai 3 channels on digital terrestrial, with the reconfiguration of the four transponders of the Eutelsat Hot Bird 13° East satellite, should also be noted as part of the process for improving the quality of Rai's offer. As regards strengthening the services offered by the Rai Group, Rai Way has set up and initiated a service for distributing television signals in Australia and North and South America using optic fiber and satellite.

As far as third party customers are concerned, Rai Way continued to promote a commercial line with mobile operators in 2016 that is designed to encourage the development of new generation networks and strengthen relations between the Company and individual operators. To this end, incentive tariffs have been drawn up and proposed for the development of the telecommunications network and infrastructure at sites available to Rai Way, with the customer committed not to dispose of a certain number of stations identified in the contract.

In addition, the agreement with EOLO S.p.A. for the provision of tower rental services was renewed in 2016 and there was a significant increase in requests by FWAP customers for hosting and activations.

Commercial activities continued as part of the tower rental services provided to broadcasting customers with the activation of additional stations for leading operators.

Regarding radio broadcasting customers Rai Way has initiated operations for reopening the radio market. A framework agreement has been entered with a national radio network and specific agreements have been signed with local stations. Meetings have begun with other national radio operators as a preliminary to entering new agreements.

In addition to the above, following the allocation of frequencies to local operators through the ministry for economic development's "beauty contest", Rai Way has signed agreements with local operators for the provision of broadcasting services on a regional basis.

In terms of the introduction of innovative services 2016 marked the start of initiatives in the Internet of Things (IoT) sector and more specifically in the Smart

City area. The excellent results achieved in tests carried out at a number of centers throughout the country, for example in the Municipality of Ormea in Piedmont, support business prospects and the Company's intention of making rapid progress towards playing a central role in the development of networks for IoT by adopting a federated model, meaning integrating its network with the networks of third parties prepared to collaborate. The tests conducted by Rai Way for creating Low Power Wide Area Networks (LPWANs), generally using high performance LoRa technology, enabled a positive evaluation to be made of the suitability of its infrastructures in developing IoT services at an individual city and regional level and on a national scale.

Finally, at an international level Rai Way continued to follow the process of television digitalization especially in South East Asia where advisory work has been obtained with KomInfo (the Indonesian Ministry of Communications), which intends to assess initial possibilities of compatibility between national SFNs given the vast size of the country with its 18,000 islands.

Significant events

The main events of the year were as follows:

- on 29 January 2016, the Board of Directors appointed Mr. Nicola Claudio as a director of the Company pursuant to article 2986, paragraph 1 of the Italian civil code to replace Mr. Salvatore Lo Giudice who resigned in November 2015;
- on 21 March 2016 the Board of Directors approved:
    - the company's draft financial statements for 2016 and a proposal to distribute a dividend of € 0.1432 per share for a total of € 38.9 million;

- the proposal for the authorization to purchase treasury shares within eighteen months from the date of the shareholders' resolution in a number not exceeding 10% of share capital and at a price neither 20% higher nor 20% lower than the official stock exchange price recorded by Borsa Italiana S.p.A. during the session proceeding each individual transaction – as well as to dispose of such;

- on 21 March 2016 the Chairman of the Board of Directors, Mr. Camillo Rossotto, handed in his resignation as director and therefore also as Chairman of the Board of Directors, effective from the end of the following Shareholders' Meeting.
- on 28 April 2016 the Shareholders' Meeting of Rai Way amongst other things:
  - approved the Company's financial statements for the year and the payment of a dividend of € 36,995,219.11 to shareholders to be funded by profit for the year after allocation to the legal reserve and € 1,955,180.89 taken from the available reserve included in retained earnings, together with the resulting distribution of a total gross dividend of € 0.1432 to each of the outstanding ordinary shares;
  - resolved to add to the Board of Directors, to hold office until the end of the board's term (meaning until the Shareholders' Meeting approving the financial statements at 31 December 2016), by appointing Mr. Nicola Claudio, confirming his co-option, and Mr. Raffaele Agrusti. The latter was appointed Chairman of the Board of Directors;
  - approved the Board of Directors' proposal to authorize the purchase and disposal of treasury shares.
- on 16 December 2016, as part of more wide-ranging process aiming to further enhance the Company as a leader in television and radio signal

transmission and broadcasting, Rai Way obtained its first ISO 9001:2015 certification in "Design and planning of systems and networks for television and radio signal transmission and broadcasting", while for the current year the Company has set itself the objective of extending certification to the "Ordinary maintenance of systems and networks for television and radio signal transmission and broadcasting".

Voluntary retirement incentive scheme

During 2016 the Company extended the voluntary retirement incentive scheme initiated in December 2015 to the following year. This scheme provides for voluntary retirement in 2016 for employees who reach retirement age or the pension contributions requirements by 31 December 2019, as compatible with the Company's operational assessments.

In agreement with the trade unions in December 2016 set up another voluntary retirement incentive scheme, determining the employees to whom it is addressed, the requisites, the amount of the incentives and the procedures that must be followed to subscribe to the scheme in 2017, with completion planned by 31 December.

Safety and the environment

As confirmation of the emphasis placed on safety at work and environmental issues, it is noted that the Company obtained ISO 14001:2004 and OHSAS 18001:2007.

The ISO 14001:2004 certification attests to compliance of the Company's environmental management system with the requirements of that standard, with specific respect to the environmental effect of electromagnetic radiation and the proper disposal of waste water as well as to the prudent management of hazardous substances and waste. The OHSAS 18001:2007 certifications attest compliance of the Company's occupational health and safety management systems with the requirements of that standard, with specific respect to the

“Planning and management of networks and systems for transmitting and broadcasting radio and television signals in Italy and abroad”.

Results for the year

The Company earned net profit of € 41.8 million in 2016 representing an increase over the corresponding figure of € 2.9 million in 2015 (+7.4%).

A summary of the Company’s income statement for the years ended 31 December 2016 and 2015 is set out in the following:

Income Statement

(in euro million; %)	2016	2015	Delta	Change %
Revenues from Rai	180.5	177.5	3.0	1.7%
Revenues from third parties	34.7	34.8	(0.1)	(0.3%)
Total Revenues	**215.2**	**212.3**	**2.9**	**1.4%**
Other revenues and income	0.4	0.3	0.1	34.8%
Personnel costs	(46.6)	(46.1)	(0.5)	(1.1%)
Operating costs	(57.7)	(57.2)	(0.6)	(1.0%)
Adjusted EBITDA	**111.3**	**109.3**	**2.0**	**1.8%**
EBITDA margin	*51.7%*	*51.5%*	*0.2%*	*0.4%*
Adjustments	(6.8)	(1.6)	(5.2)	(323.3%)
EBITDA	**104.5**	**107.7**	**(3.2)**	**(3.0%)**
Amortization and depreciation	(38.3)	(47.2)	8.9	18.8%
Write-downs	0.1	1.8	(1.8)	(96.7%)
Allocations	(0.6)	(0.5)	(0.2)	(41.6%)
EBIT	**65.6**	**61.9**	**3.7**	**6.0%**
Financial management	(2.1)	(2.9)	0.8	27.2%
Profit before income taxes	**63.5**	**58.9**	**4.5**	**7.6%**
Income tax	(21.6)	(20.0)	(1.6)	(8.2%)
Profit for the year	**41.8**	**38.9**	**2.9**	**7.4%**

Revenues amounted to € 215.2 million, an increase of € 2.9 million over the previous year (+1.4%).

The work performed for the Rai Group gave rise to revenues of € 180.5 million, up by 1.7% over the previous year; the increase is due to the additional services requested by the customer ("new services"). Revenues of € 34.7 million were earned from commercial relationships with other customers, a slight decrease over 2015.

Other revenues and income rose by € 0.1 million over the previous year due mainly to an increase in compensation for damages received from insurance companies.

Operating costs

(in euro millions; %)	2016	2015	Delta	Change %
Personnel costs	(46.6)	(46.1)	(0.5)	1.1%
Purchase of consumables	(1.3)	(1.5)	0.2	(11.4%)
Cost of Services	(52.7)	(52.0)	(0.8)	1.5%
Other costs	(3.6)	(3.7)	0.1	(1.5%)
Total	**(104.4)**	**(103.3)**	**(1.0)**	**1.0%**

"Personnel costs" – excluding non-recurring costs for retirement incentives classified as part of adjustments – amounted to € 46.6 million, representing an increase of € 0.5 million over 2015 (€ 46.1 million) mainly due to a reduction in capitalized costs and increased travel costs partially offset by a small fall in the cost of the workforce.

The average number of personnel fell by 6, from 636 in 2015 to 630 in 2016.

"Operating costs" – which consist of consumables, services and other costs excluding non-recurring items – amounted to € 57.7 million, up by € 0.6 million over the previous year, an increase due mainly to the costs incurred in connection with the new services provided to the Rai Group.

Costs for the "Purchase of consumables" fell by € 0.2 million, mostly as the result of a decrease in tooling costs and costs for the purchase of fuel.

"Cost of services" posted an increase of € 0.8 million over the previous year mainly as the consequence of an increase in the cost of leasing the transmission resources used for the Olympics and Paralympics sports events and a rise in maintenance costs for the new contribution network systems for Rai.

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

"Other costs" decreased by € 0.1 million.

Adjusted EBITDA amounted to € 111.3 million, an increase of € 2.0 million over the figure for 2015, representing a margin of 51.7%.

Reconciliation between EBITDA and Adjusted EBITDA

(in euro millions; %)	2016	2015	Delta	Change %
Adjusted EBITDA	**111.3**	**109.3**	**2.0**	**1.8%**
One-offs	(6.8)	(1.6)	(5.2)	(323.3%)
EBITDA	**104.5**	**107.7**	**(3.2)**	**(3.0%)**

EBITDA amounted to € 104.5 million, a decrease of € 3.2 million over 2015 due mainly to non-recurring costs of € 6.6 million relating to the retirement incentive scheme and initiatives for extraordinary operations totaling € 0.2 million.

Operating profit of € 65.6 million represents an improvement of € 3.7 million over 2015, due also to a reduction in amortization, depreciation and write-downs.

Financial costs ended with a net expense of € 2.1 million, an improvement of € 0.8 million over the previous year.

Net profit amounted to € 41.8 million, representing an increase of € 2.9 million over 2015.

Capital expenditure

Capital expenditure amounting to € 19.5 million was made in 2016 (€ 30.1 million in 2015), of which € 16.2 million relating to the maintenance of the Company's network infrastructure (€ 18.1 million in 2015) and € 3.3 million to the development of new initiatives.

(in euro million; %)	2016	2015	Delta	Change %
Maintenance capex	**16.2**	**18.1**	**(1.9)**	**(10.5%)**
Development capex	**3.3**	**12.1**	**(8.7)**	**(72.5%)**
Total	**19.5**	**30.1**	**(10.6)**	**(35.3%)**

The most significant maintenance expenditure incurred in relation to the television service, designed to ensure higher service standards, concerned the radio link network, while as far as maintenance expenditure on the radio network is concerned initiatives were carried out on both the analog network and the digital network (DAB) which led to the renovation of transmission equipment and MF radiant equipment as a means of improving the reliability and availability of the current service.

Development investments mainly concerned the new contribution service for Rai, realized using the Company's own cutting edge technologies regarding the IP ecosystem, codification, commutation and transport using leased capacity in optic fiber ,and initiatives connected with the year's main sports events.

Statement of financial position

(in euro million; %)	2016	2015	Delta	Change %
Fixed assets	207.9	226.8	(19.0)	(8.4%)
Net working capital	0.6	12.7	(12.1)	(95.5%)
Net provisions	(37.5)	(38.7)	1.2	3.1%
Invested capital	**171.0**	**200.9**	**(29.9)**	**(14.9%)**
Net equity	161.5	159.3	2.3	1.4%
Net financial position	9.4	41.6	(32.2)	(77.3%)
Total funding	**171.0**	**200.9**	**(29.9)**	**(14.9%)**

Invested capital of € 171.0 million at 31 December 2016 fell by € 29.9 million over 31 December 2015, a fall arising mainly from a decrease in non-current assets due to the fact that the depreciation and amortization charge for the year exceeded capital expenditure and from a reduction in net working capital. The Company had a Net Financial Position of € 9.4 million at 31 December 2016, lower than 2015 as the result of the generation of cash by operating activities.

Human resources and organization

Rai Way had a workforce of 615 people at 31 December 2016: 22 executives, 153 middle managers, 409 technicians and office workers (including 12 apprentices) and 31 manual workers. To these people should be added an additional 7 workers with fixed-term employment contracts.

The following table sets out information regarding the composition, age and education of personnel to provide further details of the Company's workforce.

	Executives			Middle managers			Technicians and office workers			Manual workers		
Year	**2014**	**2015**	**2016**	**2014**	**2015**	**2016**	**2014**	**2015**	**2016**	**2014**	**2015**	**2016**
Men (average for the year)	12	15	17	107	117	113	382	379	371	35	34	33
Women (average for the year)	2	4	5	13	16	20	77	76	74	0	0	0
Average age	52	51	51	53	54	52	46	46	46	55	55	56
Working seniority	20	16	15	27	28	26	18	18	18	29	29	30
University graduates (%)	93	95	95	43	41	39	16	16	19	0	0	0
High school diploma (%)	7	5	5	57	59	61	81	81	78	68	68	71
Middle school diploma (%)	0	0	0	0	0	0	2	2	3	34	32	29

In 2016 the lines of development included in the 2015-2019 Business Plan led to additionally evolutionary action being taken by HR in a perspective of supporting the creation of value, sustaining results and achieving the Company's strategic objectives, while at the same time ensuring the full engagement of the Company's personnel.

<u>Rewarding systems, talent management and succession plan</u>

The following steps were taken to support the change management process:

- reinforcement of the MBO system for corporate management and the design, planning and development of a top-down variable remuneration model through to middle management level;

- design, planning and implementation of succession plans with the aim of drawing up a "succession chart" for critical positions and pools of potential successors for middle management roles;
- activation of organizational analyses, external benchmarking and the extension of the appRaisal of potential to the whole of the middle management area.

Configuration and implementation of a business-oriented corporate model

With a view to re-engineering the Company's organizational model on the basis of the strategic focus on efficiency and focus on business guidelines established in the Business Plan, the organizational framework has been redesigned to provide a corporate structure more oriented towards development and efficiency and a market development scenario as well as an additional, parallel illustration of the responsibilities considered key under legislative provisions (anti-corruption, quality and safety, risk control).

Development of a Corporate social dimension

Rai Way has reinforced the attention it gives to the social dimension, supplementing the contacts already initiated with university networks aiming to provide training designed to furnish curriculum experience with school/work alternation by way of a multi-year project geared towards alternating/supplementing traditional learning experience with training experience in the Company.

Enhancement and efficiency

With an aim to upgrading its internal processes the Company has developed a Quality Management System and obtained ISO 9001:2015 certification in the application field "Design and planning of systems and networks for television and radio signal transmission and broadcasting", while it has initiated steps towards extending certification to the "Ordinary maintenance of systems and networks for television and radio signal transmission and broadcasting".

Further progress has been made in structuring employee career paths by strengthening internal training on both the managerial side (in particular by coaching initiatives involving the strategic management area) and the technical side (with operational development of six-monthly paths aimed at upgrading the multi-skill abilities of local staff), as well as by setting up rewarding/motivating mechanisms at levels increasingly consistent with the Company's competitive dimension.

The *Innovation Prize* initiative for employees was bolstered during the year, with a whole series of transverse design initiatives – focused on innovation, sustainability and simplification – being awarded at an ad hoc event arranged in the presence of corporate management and top level managerial/academic/consultancy testimonials and acting as a privileged moment for sharing and a stimulus for future projects.

Industrial relations saw the Company involved in implementing the work organization model set out in the national agreements signed in 2015/2016 – based on a rationale of flexibility/ simplification – aiming to provide a positive solution to the natural phase of conflict caused by a reduction in the workforce arising from the voluntary retirement scheme and the resulting generational change and skill renewal process.

Moreover, in November 2016 Rai Way announced its intention to extend the staff voluntary retirement scheme to 2017, basing it on age and contribution/insurance seniority as compatible with the Company's operational assessments.

Disclosures regarding the main risks and uncertainties to which the Company is subject

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

<u>Risk factors related to the Company</u>

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

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

The Company's largest customers are Rai and the four major MNOs in Italy with whom it enters framework agreements for tower rental services, generally having a six-year term.

Despite the fact that renewals have already been formally agreed with the counterparties, together with an undertaking not to dispose sites for a three-year period, there is no certainty as to either the continuation of said relationships or the renewal of agreements at the natural expiry date. In addition, even if these arrangements are renewed, there is no certainty that the Company will be able to obtain contractual terms and conditions that are at least equivalent to those contained in the current agreements.

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

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

Risks related to the New Service Agreement

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

Risks related to the possibility that the Rai concession may not be renewed

Pursuant to articles 45 and 49 of Legislative Decree no. 177 of 31 July 2005 as amended, Rai has been mandated by concession to provide the general Public Service for radio and television broadcasting until 30 April 2017. The agreement stipulated between Rai and the Ministry of Economic Development (formerly the Ministry of Communications) on 15 March 1994 was approved by way of the Presidential Decree of 28 March 1994.

If the concessionary agreement between the Italian government and Rai is terminated or not renewed, or if a renewal is stipulated under terms and conditions that differ from those currently existing, there could be material negative effects on the Company's operating results, financial position and cash flows. There is a connection between the contractual relationship between the Italian government and Rai and the contractual relationship between Rai and the Company. As a result, the former has an effect on the latter. Pursuant to the New Service Agreement the failure to renew the concession is an institutional modifying event which entitles Rai to withdraw from such by giving twelve months' notice.

The law on the "Reform of Rai and the radio and television public service" (Law no. 220 of 28 December 2015) made changes, among other things, to a number of provisions regarding the national service agreement. Pursuant to article 1 of this law, article 45, paragraph 1 of Legislative Decree no. 177/2005 was amended as follows: "The general radio and television service is entrusted by concession to a joint stock company which, in accordance with the principles included in article 7, shall perform such on the basis of a national service agreement entered into with the Ministry, subject to a resolution of the council of ministers, and regional service agreements and, for the provinces of Trento and Bolzano, provincial service agreements, which identifies the rights and obligations of the concessionary company. These agreements shall be renewed every five years as part of the concession that recognizes to Rai – Radiotelevisione Italiana S.p.A. the role as the manager of the public radio, television and multi-media service".

Decree no. 244 of 2016, published in the Official Journal no. 304 of 30 December 2016 (the "thousand extensions decree"), became effective on 30 December 2016. This legislation and the subsequent conversion law no. 19 of 2017, which became effective on 1 March 2017, provides among other things for the extension of the public service concession to Rai for a further three months, with expiry on 30 April 2017.

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

At the balance sheet date there was uncertainty as to the technical standards regarding the provision of the Public Service that will be agreed between Rai and the Ministry, given that the new service agreement between the Parent Company and the Ministry is currently under negotiation and has not yet been signed. The Service Agreement between Rai and the Ministry approved by way of the Ministerial Decree of 27 April 2011 and relating to the 2010-2012 period was still effective at the balance sheet date. Given that it has expired, the agreement is in a prorogation period.

Risks related to the ownership of the frequencies held by broadcasting customers

The Company is not and has never been the owner of frequencies, which are assigned to its customers known as broadcasters – a category that includes national and local radio and television operators of which also Rai forms part. The loss of the ownership of the frequencies by broadcasting customers could lead to a loss of customers by the Company, with negative effects on its revenues, as well as on its results of operations, financial position and cash flows. In addition, any changes to the assigned frequencies could cause an increase in the costs that the Company would be required to incur and the investments it would need to make.

Risk related to the contractual and administrative structure of the Sites

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

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

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

Risks related to Rai's management and coordination activities

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

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

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

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

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

Risks related to the Company's ability to implement its strategy

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

The Company's ability to increase its revenues and improve its profitability also depends on its success in achieving its strategy, which at the balance sheet date was based, *inter alia*, on the following factors:

• pursuit of performing further initiatives for Rai;

• strengthening of its market position as the leading operator in Italy for tower rental services, broadcasting services, transmission services and contribution services;

• enhancement and extension of its range of consultancy services and network management services, in particular regarding migration to digital;

• improvement of its operating efficiency and margins.

Risks related to key personnel

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

The results achieved by Rai Way also depend on the contribution provided by people having key roles within the Company (including in particular the Chief Executive Officer - also Strategy Director - and the General Manager) who have extensive experience in the sector in which Rai Way operates, and who – in certain cases – have played a crucial role in developing the Company from the time of its establishment. At the balance sheet date, all these persons considered key for the purposes of the above are tied to the Company by permanent employment contracts.

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

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

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

Risks related to related party transactions

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

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

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

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

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

Risks related to the takeover of the Company

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

<u>Risk factors related to the industry in which the Company operates</u>

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

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

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

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

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

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

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

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

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

Risks related to technological change

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

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

Risks related to increased competition

As regards the business sectors in which the Company operates, the Italian market is characterized by a limited presence of domestic and international operators. Significant increases in the number of competitors could have negative effects on the Company's results of operations, financial position and cash flows.

Risks related to environmental protection and electromagnetic radiation

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

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

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

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

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

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

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

Risks arising from stoppages and strikes

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

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

Risks related to global economic conditions

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

Financial risks

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

- currency risk: currency risk was not significant in 2016 as the Company's operations are concentrated in the European Union;

- interest rate risk: interest rate risk arose mainly in 2016 from the medium-term loan agreement entered with a syndicate of banks and divided into the following two credit facilities:
    - a term credit facility of up to € 90 million completely drawn down; and
    - an unused revolving credit facility of up to € 50 million.

  To limit the fluctuation of interest expense affecting the Company's results and the risk of a potential increase in interest rates, in accordance with its financial policy the Company has entered an interest rate swap agreement with two banks to hedge the variable interest rate on this loan for up until 30 September 2019 and for a total notional amount of 50% of the loan, equally allocated between the two banks;
- liquidity risk: this is connected with the Company's ability to meet the commitments arising mainly from its financial liabilities. In order to be able to satisfy these commitments the Company has taken out the two credit facilities discussed at the previous point. More specifically, the aim of the revolving facility is to be used for supporting working capital and general cash requirements. In addition, the Company is able to satisfy its commitments through the cash generated from operations.

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

Credit risk

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

Data security policy and the "Security Policy Document"

Following the introduction of article 45 of Legislative Decree no. 5 of 9 February 2012 and the resulting abolition of the obligation for entities to update their "Security Policy Document", the Company is no longer required to carry out that process and accordingly made no changes as of 31 December 2016.

As however there had been no significant changes in the Company's activities at that date the document updated as of 31 December 2011 may be considered suitable for the purposes of personal data protection as per article 34 of Legislative Decree no. 196/2003 and Annex B of such.

The above considerations also apply if it is taken into account that data protection offences have been excluded from the scope of those that are relevant pursuant to Legislative Decree no. 231/01 following the entry into force of Law no. 119 of 15 October 2013. Upon conversion, paragraph 2 of article 9 of Legislative Decree no. 93/13, which contemplated said offences, was repealed.

In any case, the Company has implemented an adequate internal organization and carefully checks for compliance with the data protection regulations within the corporate environment on a constant basis, by appointing personal data protection officers pursuant to articles 4, 29 and 30 of Legislative Decree no. 196/2003 and by issuing disclosures relating to the precautionary and security measures to be adopted pursuant to articles 33, 34 and 35 of the above-mentioned legislation.

For further implementation and verification of security requirements, the Company has implemented a monitoring and reporting system that should be applied every six months by each data protection officer, also in order to outline the security measures adopted.

At present, therefore, the internal regulations in force provide for the necessary security measures, including those for the digital authentication and the authorization to retrieve data, specifying the scope of data processing for data processors and any persons responsible for the management and maintenance of electronic instruments and providing for adequate measures for the protection of data, particularly sensitive data, in the presence of any possible illegal treatment or unauthorized access, with copies held in safe custody, including measures to restore systems.

The Company has, therefore, complied with the above requirements within the scope of the more general and prevailing needs of cost containment, since it is not necessary to use resources for activities that are no longer required by law in the absence of needs that have not already been safeguarded.

Research and development

In 2016 the Company's research and development activities continued to be directed towards the testing of new digital services applied to the transmission and broadcasting of radio and television programs. The Company also carries out this activity internally, at times using the assistance of Rai's Research and Technological Innovation Center (CRIT).

The main initiatives included the following:

- SFN network: an internship project has been set up with the cooperation of the Milan Polytechnic to assess the effects of ISO-channel interference due to sources arriving from other directions, processing the continuous data from specifically equipped workstations;
- spectrum recording: as part of the work concluding the European DEMETRA project a workstation was installed at Rai Way for the reception of a time signal transmitted by INRIM by way of a geostationary satellite and coordinated through stations located in Spain and Germany. The results compared with the GPS system over a relatively short period of time have been satisfactory, with the difference being limited to +/- 100 ns. Assessments are currently being made as to whether continue with the testing by way of a cooperation agreement with INRIM and other network operators.

Relationships with companies of the Rai Group

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

Treasury shares

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

Subsequent events

On 19 January 2017, Mr. Nicola Claudio, a non-executive director not classified as an independent director, handed in his resignation as a director of the Company for reasons connected with his professional activity.

On 31 January 2017, the Board of Directors co-opted Mr. Valerio Zingarelli onto the board as a non-executive and non-independent director pursuant to article 2386, paragraph 1 of the Italian civil code to replace Mr. Nicola Claudio, who resigned on 19 January 2017.

On 1 March 2017, the Company finalized a multi-year agreement for the use and maintenance of the Norba Group's radio and television broadcasting network. The Norba Group is Italy's number one local operator in terms of audience and has been a leader in the multi-media communication sector in the South of Italy for the past 40 years.

On finalizing the agreement Rai Way acquired from Telenorba 100% of the capital of Sud Engineering Srl with 30 transmission sites that are situated in

Puglia, Basilicata and Molise to be used for the planned purpose of hosting the workstations.

On 1 March 2017, Law no. 19 of 2017 became effective. Among other things this legislation provides for the extension of the public service concession granted to Rai for a further three months, with expiry on 30 April 2017.

Business outlook

The Company envisages the following for 2017:

- adjusted EBITDA will continue the growth trajectory followed over the past few years,
- maintenance investments will remain in line with long-term targets.

Coordination and control activity

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

The key data of the Parent Company stated below in the summary form as required by article 2497-bis of the Italian civil code have been taken from the financial statements for the year ended 31 December 2015. It should be noted that the Parent Rai also prepares consolidated financial statements.

For a suitable and complete understanding of the financial position of Rai-Radiotelevisione Italiana S.p.A. at 31 December 2015 as well the result of the Company for the year then ended reference should be made to the financial statements which together with the auditors' report are available in the form and by the means prescribed by law.

RAI SpA - Financial statement at 31/12/2015

Summery key data

Thousands of Euros

Balance Sheet

Asset	**Year ended 31 dicembre 2015**
Property, plant and equipment	885,127
Intangible assets	416,722
Equity investments	926,509
Non-current financial assets	59
Other non-current assets	14,548
Total non-current assets	**2,242,965**
Total current assets	**791,403**
Total assets	**3,034,368**
Share capital	242,518
Reserves	881,112
Retained earnings	(311,844)
Total shareholders' equity	**811,786**
Non-current financial liabilities	391,068
Employee benefits	538,356
Provisions for risks and charges	174,323
Deferred tax liabilities	21,428
Other non-current payables and liabilities	6,286
Total non-current liabilities	**1,131,461**
Totale current liabilities	**1,091,122**
Total liabilities	**2,222,583**
Total liabilities and shareholders' equity	**3,034,368**

Income statement

	Year ended 31 dicembre 2015
Total revenues	2,335,252
Total Costs	(2,505,823)
Operating profit	**(170,571)**
Financial income	87,278
Financial expenses	(19,938)
Result from investments accounted for using shareholders' equity method	1,844
Profit/Loss before income taxes	**(101,387)**
Income taxes	55,404
Profit/Loss for the year	**(45,983)**
Components of comprehensive income	29,417
Total comprehensive income for the year	**(16,566)**

Following the admission to trading and listing of the Company's shares, Rai continues to exercise control pursuant to article 93 of the Consolidated Finance Act and exercise management and coordination activities with respect to Rai Way. In the Company's opinion though, although it is subject to the management and coordination of Rai, it works in conditions of operational autonomy, generating revenues from its customers and using its own skills, technologies, human resources and funds.

On 4 September 2014, the boards of directors of Rai and Rai Way, to the extent of their competence, approved the Management and Coordination Regulation of the Parent Company with respect to Rai Way in a manner completely different from that of the other companies of the Rai Group subject to management and coordination by Rai.

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

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

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

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

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

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

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

comments and observations without any requirement to comply with them.

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

In addition, the Company also has a Control and Risks Committee, which also carries out the functions of the Related Party Committee, and an Appointments Committee whose members are exclusively independent directors under the criteria established by article 148, paragraph 3 of Legislative Decree no. 58/1998, the Corporate Governance Code of Borsa Italiana S.p.A. and article 37 of CONSOB Regulation 16191/2007. The Company also has a Board of Directors, the majority of whose members are independent directors.

Report on corporate governance and ownership structures

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

Rome, 9 March 2017

On behalf of the Board of Directors

The Chairman

Raffaele Agrusti

FINANCIAL STATEMENTS

Income Statement (*)
Rai Way S.p.A.

(in Euro)	Notes	Year ended 31/12/2016	Year ended 31/12/2015
Revenues	6	215,216,216	212,306,065
Other revenues and income	7	405,346	300,644
Purchase of consumables	8	(1,343,792)	(1,515,909)
Service costs	9	(52,918,796)	(52,138,438)
Personnel costs	10	(53,228,359)	(47,565,679)
Other costs	11	(3,632,978)	(3,689,021)
Amortization, depreciation and write-downs	12	(38,288,522)	(45,388,064)
Provisions	13	(637,555)	(450,393)
Operating profit		**65,571,560**	**61,859,204**
Financial income	14	40,115	107,271
Financial expenses	14	(2,159,533)	(3,018,715)
Total financial income and expences		**(2,119,418)**	**(2,911,444)**
Profit before income taxes		**63,452,142**	**58,947,760**
Income tax	15	(21,637,843)	(20,005,424)
Profit for the year		**41,814,299**	**38,942,336**

Statement of comprehensive income (*)
Rai Way S.p.A.

(in Euro)	Notes	Year endend 31/12/2016	Year endend 31/12/2015
Profit for the year		**41,814,299**	**38,942,336**
Items that will be reclassified to the income statement			
Gain (loss) on hedging instruments (cash flow hedge)	18	(76,030)	-
Tax effect		21,666	
Items that will not be reclassified to the income statement			
Actuarial gains (losses) on employee benefits	28	(706,771)	332,615
Tax effect		169,625	(238,453)
Total comprehensive income for the year		**41,222,789**	**39,036,498**

(*) Statement prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Board and adopted by the European Union ("IFRS").

Statement of financial position Rai Way S.p.A. (*)

(in Euro)	Notes	Year ended 31/12/2016	Year ended 31/12/2015
Non-current assets			
Property, plant and equipment	16	205,181,198	224,496,654
Intangible assets	17	2,215,035	1,830,934
Non-current financial assets	18	111,183	173,850
Deferred tax assets	19	4,950,607	4,473,254
Other non-current assets	20	355,688	339,150
Total non-current assets		**212,813,711**	**231,313,843**
Current assets			
Inventory	21	919,954	1,001,152
Trade receivables	22	66,999,351	70,333,433
Other current receivables and assets	23	4,353,558	4,465,554
Current financial assets	18	225,032	298,572
Cash and cash equivalents	25	81,309,420	78,940,807
Tax receivables	24	317,953	485,869
Total current assets		**154,125,268**	**155,525,386**
Total assets		**366,938,979**	**386,839,228**
Shareholders' equity	26		
Share capital		70,176,000	70,176,000
Leval reserve		10,070,018	8,122,901
Other reserves		37,024,606	37,078,970
Retained earnings		44,263,862	43,884,226
Total shareholders' equity		**161,534,486**	**159,262,097**
Non-current liabilities			
Non-current financial liabilities	18	60,697,873	90,617,939
Employee benefits	28	18,699,318	20,319,478
Provisions for risks and charges	29	18,762,295	18,352,923
Other non-current payables and liabilities		-	-
Deferred tax liabilities		-	-
Total non-current liabilities		**98,159,486**	**129,290,340**
Current liabilities			
Trade payables	30	41,172,459	37,178,889
Other current payables and liabilities	31	33,622,037	28,341,491
Current financial liabilities	18	30,276,988	30,244,854
Tax payables	32	2,173,523	2,521,557
Total current liabilities		**107,245,007**	**98,286,791**
Total liabilities and shareholders' equity		**366,938,979**	**386,839,228**

(*) Statement prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and adopted by the European Union ("IFRS").

Statement of changes in equity Rai Way S.p.A. (*)

(in Euro)	Share capital	Legal reserve	Other reserves	Retained earnings	Total
1 January 2014	**70,176,000**	**6,298,612**	**37,078,970**	**28,140,479**	**141,694,061**
Profit for the year				24,645,775	24,645,775
Gain and losses from actuarial valutation				(1,397,438)	(1,397,438)
Allocation of profit to reserves		592,000		(592,000)	-
Dividend distribution				(11,152,000)	(11,152,000)
31 December 2014	**70,176,000**	**6,890,612**	**37,078,970**	**39,644,818**	**153,790,398**
Profit for the year				38,942,336	38,942,336
Gain and losses from actuarial valutation				94,162	94,162
Allocation of profit to reserves		1,232,289		(1,232,289)	-
Dividend distribution				(33,564,800)	(33,564,800)
31 December 2015	**70,176,000**	**8,122,901**	**37,078,970**	**43,884,226**	**159,262,097**
Profit for the year				**41,814,299**	41,814,299
Gain and losses from actuarial valutation				(537,146)	(537,146)
Reserve cash flow hedge			(54,364)		(54,364)
Allocation of profit to reserves		1,947,117		(1,947,117)	-
Dividend distribution				(38,950,400)	(38,950,400)
31 December 2016	**70,176,000**	**10,070,018**	**37,024,606**	**44,263,862**	**161,534,486**

(*) Statement prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and adopted by the European Union (“IFRS”).

Cash flow statement Rai Way S.p.A. (*)

(in Euro)	Year ended 31/12/2016	Year ended 31/12/2015
Profit before income taxes	**63,452,142**	**58,947,760**
Adjustments for:		
Amortization, depreciation and write-downs	38,288,522	45,388,064
Allocations to (releases from) provisions for personnel and other provisions	3,402,544	3,943,230
Net financial income (**)	1,926,792	1,875,507
Cash flows from operating activities before changes in net working capital	**107,070,000**	**110,154,562**
Change in inventory	81,198	(100,560)
Change in trade receivables	3,394,596	(4,115,858)
Change in trade payables	3,993,570	1,227,485
Change in other assets	111,996	(81,957)
Change in other liabilities	3,302,611	1,180,347
Use of provision for risks	(876,395)	(1,905,402)
Payment of benefits to employees	(4,733,381)	(3,152,331)
Change in tax receivables and payables	(977,785)	(158,848)
Taxes paid	(19,148,303)	(14,193,212)
Net cash from (used in) operating activities	**92,218,106**	**88,854,225**
Investments in property, plant and equipment	(18,678,351)	(28,570,165)
Disposals of property, plant and equipment	74,208	296,489
Investments in intangible assets	(813,537)	(1,552,112)
Disposals of intangible assets	-	52,038
Change in non-current financial assets	62,667	62,833
Change in other non-current assets	(16,538)	1,894
Interest paid	40,115	107,271
Net cash from (used in) investing activities	**(19,331,437)**	**(29,601,751)**
Decrease/increase in medium/long-term loans	(30,150,142)	10,045,488
Decrease/increase in current financial liabilities	(315,575)	29,949,955
Change in current financial assets	73,540	377,877
Interest paid	(1,175,478)	(1,777,952)
Dividends distributed	(38,950,400)	(33,564,800)
Net cash from (used in) financing activities	**(70,518,055)**	**5,030,568**
Change in cash and cash equivalents	**2,368,614**	**64,283,041**
Cash and cash equivalents at the beginning of the year	78,940,807	14,657,765
Cash and cash equivalents at the end of the year	**81,309,420**	**78,940,806**

(*) Statement prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and adopted by the European Union ("IFRS").

(**) Financial expenses related to the provision for decommissioning and restoration are excluded from Net financial income as they are not considered to be financial in nature.

NOTES TO THE FINANCIAL STATEMENTS

Introduction (note 1)

Rai Way S.p.A. (hereafter "Rai Way" or the "Company") has prepared these financial statements for the years ended 31 December 2016 and 2015 (hereafter the "financial statements") in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and adopted by the European Union ("IFRS").

General Information (note 2)

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

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

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

- the design, installation, construction, maintenance, implementation, development and management of telecommunications networks and software, as well as the preparation and operation of a commercial, distribution and assistance network; these operations are aimed at the provision of services for the transmission, distribution and broadcasting of audio and visual signals and programs in favor of Rai, which is the concessionaire of Italian public radio and television broadcasting services, and of its subsidiaries, as well as of third parties, and of telecommunications services of any kind;

- the provision of wireless infrastructures and related services to wireless operators (including telephone operators, local loop wireless operators, TETRA, UMTS and other existing or future mobile technology operators), including the leasing of sites/aerials and co-lease services, built-to-suit services, network programming and design, site research and acquisition, site design and construction, site installation and commissioning, network optimization, infrastructure maintenance, network operation and maintenance and related microwave or fiber transmission services;
- research, consulting and tRaining activities for people both inside and outside the Company, in the areas described in the two paragraphs above.

Summary of Accounting Principles (note 3)

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

<u>Basis of Preparation</u>

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

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

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

- statement of financial position prepared by classifying assets and liabilities on a "current/non-current" basis;
- an income statement prepared by classifying operating costs by their nature;
- a statement of comprehensive income which in addition to net profit for the year includes other changes in the equity accounts arising from transactions not carried out with the Company's shareholders;
- a cash flow statement which has been prepared by presenting cash flows from operating activities using the "indirect method".

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

<u>Translation of transactions in a currency other than the functional currency</u>

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

Accounting policies

Set out in the following is a brief description of the most significant accounting policies used in preparing the Financial Statements.

Property, plant and equipment

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

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

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

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

Asset category	Useful life (years)
Buildings	10 – 17
Plant and machinery	4 – 12
Production and commercial equipment	5 – 7
Other assets	4 – 8

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

Intangible assets

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

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

Intangible assets with a finite useful life are systematically amortized over their useful lives, meaning the estimated period during which they will be used by the Company. The Company uses the same approach to determine the amortizable amount and the recoverability of the carrying amount described for "property, plant and equipment".

<u>Impairment of tangible and intangible assets</u>

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

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

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

Cash and cash equivalents

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

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

Inventory

Inventories of raw materials, ancillary materials and consumables, mostly technical materials, are measured at the lower of cost, determined on a weighted average cost basis, and market value at the balance sheet date.

Stocks of raw materials, ancillary materials and consumables that can no longer be used in the production cycle are written down.

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

Trade receivables and other financial assets

Trade receivables and other financial assets are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. Trade receivables and other financial assets are classified as current assets, other than those having a contractual settlement date of more than twelve months after the balance sheet date which are classified as non-current assets.

Impairment losses are recognized when there is objective evidence that the Company will not be able to recover the receivable due from the counterparty on the basis of the contractual terms.

The impairment loss is measured as being the difference between an asset's carrying amount and the present value of the estimated future cash flows and it is recognized in the income statement under the item "Amortization, depreciation and write-downs". If in subsequent periods the reasons that led to the previous recognition of an impairment loss no long hold, the loss is reversed up to the amount that would have been determined on the basis of amortized cost.

Finance and operating leases

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

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

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

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

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

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

Financial liabilities

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

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

Derivatives

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

- its value changes in response to changes in an underlying such as an interest rate, a share price or a commodity price, a foreign exchange rate, an index of prices or rates, a credit rating or another variable;
- it requires no initial net investment or an initial net investment that is smaller than would be required for contracts having a similar response to changes in market factors;
- it is settled at a future date.

Derivatives are classified as financial assets or financial liabilities depending on whether their fair value is positive or negative, and are further classified as "held for trading" and measured at fair value through profit or loss, except for those designated as effective hedges. Derivatives are designated as hedging instruments when the relationship between the derivative and the hedged item is formally documented and the hedge is expected to be highly effective; the effectiveness of a hedge is verified on a regular basis. When derivatives hedge the exposure to variabilities in the cash flows of the hedged item (cash flow hedges) such as in the case of hedging the variability in cash flows arising from assets/liabilities due to fluctuations in foreign exchange rates, the changes in the fair value of derivatives considered effective are initially recognized in other comprehensive income in equity and subsequently reclassified to profit or loss in line with the economic effects arising from the hedged transaction. Changes in the fair value of derivatives that do not qualify as hedges are recognized directly in profit or loss.

Employee benefits

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

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

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

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

Provisions for risks and charges

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

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

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

Trade payables and other liabilities

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

Recognition of revenues and income

Revenues are recognized at the fair value of the consideration received or receivable for the sale of goods and services in the normal course of the Company's operations. Revenues are recognized net of returns, discounts, rebates and bonuses and directly related taxes.

Revenues from sales and services are recognized when the significant risks and rewards typical of ownership have been effectively transferred or when services have been rendered.

Revenues arising from the partial rendering of services are recognized on the basis of the consideration accrued at the balance sheet date on condition that the stage of completion can be measured reliably and that there are no uncertainties as to the amount and existence of the revenue and the relative costs. If this is not the case revenues are only recognized to the extent that the expenses recognized are recoverable.

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

Recognition of costs

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

Government grants

Government grants are recognized in the financial statements when there is reasonable assurance that the Company will comply with all the conditions attaching to the receipt of the grants and that the grants will be received. Grants are recognized as income over the period necessary to match them with the related costs.

The accounting treatment of the benefits deriving from a loan obtained from public bodies at a subsidized interest rate is similar to that used for government grants. The benefit is calculated as the difference between the initial fair value of the loan, including the costs incurred to obtain the loan, and the amount actually received. This difference is initially recognized as a liability in the balance sheet and is subsequently released to the income statement over the term of the loan.

Taxation

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

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

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

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

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

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

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

Earnings per share

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

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

Recently issued accounting standards

Accounting standards adopted by the European Union but not yet applicable

- IFRS 15 "Revenue from Contracts with Customers" (IFRS 15) was adopted by the European Commission on 22 September 2016 by way of Regulation no. 2016/1905; this standard specifies the principles for recognizing revenue earned from contracts with customers. More specifically, the standard requires revenue to be recognized on the basis of the following five steps:

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

IFRS 15 is effective for reporting periods that begin on or after 1 January 2018.

- IFRS 9 "Financial Instruments" was adopted by the European Commission on 22 November 2016 by way of Regulation no. 2016/2067. In particular, the new standard reduces the number of categories of financial assets included in IAS 39 and: (i) defines the way in which financial assets should be classified and measured; (ii) introduces a new impairment model for financial instruments; (iii)determines the way in which hedge accounting should be applied; (iv) specifies the accounting treatment for changes in credit rating when measuring liabilities at fair value.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018.

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

Accounting standards not yet adopted by the European Union

- On 14 January 2016, the IASB issued IFRS 16 "Leases". The standard establishes a new model for accounting for leases, eliminating the distinction between operating leases and finance leases. IFRS 16 is effective for periods beginning on or after 1 January 2019.

- On 19 January 2016, the IASB issued an amendment to IAS 12 "Income Taxes". The amendment clarifies the accounting treatment in the case of an unrealized loss related to debt instruments measured at fair value, which gives rise to a deductible temporary difference if the instrument's holder expects to keep it until maturity. The amendment is effective for annual periods beginning on or after 1 January 2017.
- On 29 January 2016, the IASB issued an amendment to IAS 7 "Statement of Cash Flows". The amendment requires disclosures to be made about changes in financial liabilities. The aim is to provide information to the users of financial statements to evaluate changes in liabilities arising from financial activity. The amendment is effective for annual periods beginning on or after 1 January 2017.
- On 12 April 2016 the IASB issued clarifications to IFRS 15 "Revenue from Contracts with Customers". These clarifications, effective from 1 January 2018, regard:
    1. the identification of contractual obligations connected with performance;
    2. distinguishing between a principal and an agent;
    3. when to recognize revenue resulting from the granting of a license.
- On 20 June 2016 the IASB issued amendments to IFRS 2: "Classification and Measurement of Share-based Payment Transactions". The amendments clarify the requirements for and means of recognizing share-based payments. The amendments are effective from 1 January 2018.
- On 12 September 2016 the IASB issued amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts". The amendments respond to critical matters that have emerged from the

introduction of IFRS 9 while waiting for the standard that will replace the current IFRS 4. The amendments are effective from 1 January 2018.

- On 8 December 2016 the IASB issued “IFRS Annual Improvements Cycle 2014-2016”, containing amendments, essentially clarifying guidance and wording, to certain international accounting standards. The amendments discussed in this document are effective for annual periods beginning on or after 1 January 2018. The amendments included in the Annual Improvements Cycle 2014-2016 are as follows:
    - IFRS 1: the short-term exemptions in paragraphs E3-E7 are deleted because they have now served their intended purpose;
    - IFRS 12: the scope of the standard is clarified by specifying that the disclosure requirements in the standard, except for those in paragraphs B10-B16, apply to an entity’s interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5;
    - IAS 28: clarification is provided that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization is available for each investment in an associate or a joint venture upon initial recognition.
- On 8 December 2016 the IASB issued IFRIC Interpretation 22 “Foreign Currency Transactions and Advance Consideration”. The interpretation covers foreign currency transactions when an entity measures a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before it recognizes the related asset, expense or income. The interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts. IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018.

- On 8 December 2016 the IASB issued amendments to IAS 40: "Transfers of Investment Property." The amendments clarify the way in which changes in classification to and from investment property should be made. The amendments are effective for annual reporting periods beginning on or after 1 January 2018.

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

Segment Information

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

Transactions between Rai and Rai Way

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

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

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

Reference should be made to the section on related party transactions for further details about transactions between Rai and Rai Way and to the section on subsequent events where an update on these transactions is provided.

Financial risk management (note 4)

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

The main risks identified by the Company are as follows:

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

Market risk

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

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

- Interest rate risk. The policy requires that interest rate risk, which derives from possible fluctuations in the interest rates applicable to the long-term loans granted to the Company (for significant amounts), be managed through the use of the hedging instruments available on the market such as IRSs, options, etc., with pre-set minimum cover percentages. Applying an increase of 50 bps to the financial balances at 31 December 2016 that are exposed to interest rate risk, a pre-tax economic effect on financial expense of approximately € 0.2 million is obtained for the part not hedged by IRS.

- Exchange rate risk. The Company's operations in currencies other than the Euro are extremely limited and accordingly its exposure to exchange rate risk does not lead to significant effects on its financial position, results from operations or cash flows. The Company nevertheless monitors its exposure in currency to be ready to take the initiatives deemed necessary by its policy to manage any significant risk positions (over € 2.5 million) which may emerge from a changed exposure to exchange rate risk. In these cases the policy requires a gradual hedging approach to be taken by means similar to those envisaged for interest rate risk described above.
- Risks connected with the investment of liquidity. For risks connected with the investment of liquidity, in the case of temporary excesses of cash the Company's policy requires the use of low-risk market-based financial instruments with counterparties having a high rating or with the Parent. Demand deposits with the Parent were mostly used in 2016.

Credit risk

The Company's main customer is its Parent Rai, which generated revenues of € 180,470 thousand (approximately 84% of total revenues) and € 177,464 thousand (approximately 84% of total revenues) in the years ended 31 December 2016 and 2015 respectively. The Company's other customers are mainly telephone operators, broadcasting companies, entities of the public administration and other corporate customers with which the Company enters multi-year service agreements. The Company is therefore exposed to the risk of concentration of revenues and credit deriving from the possibility that its trade counterparties will be unable to fulfill their obligations, either for business and financial reasons such as business instability, the inability to collect the necessary capital for the performance of their activity or those related to the general trend towards the reduction in operating costs, or else for technical-commercial reasons or legal reasons connected with the performance of the services by the Company such as complaints relating to the services provided or the customers' inclusion in bankruptcy proceedings that make it more difficult or impossible to recover the receivables.

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

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

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

The following table provides an ageing of trade receivables at 31 December 2016 and 2015, with figures stated net of the provision for bad and doubtful debts.

(in euro thousand)	Year ended 31 December	
	2016	**2015**
Not yet due	62,622	61,323
Overdue by 0-30 days	-	252
Overdue by 31-60 days	152	1,552
Overdue by 61-90 days	2	18
Overdue by more than 90 days	4,223	7,188
Total	**66,999**	**70,333**

All trade receivables are due within 12 months.

Liquidity risk

Liquidity risk is the inability for the Company to obtain the funding it requires to meet its operational requirements for investments, working capital and debt servicing. Rai Way believes that cash flows from operating activities and its outstanding loans (see the section on "Current and non-current financial assets and liabilities") are amply sufficient to meet its needs. At 31 December 2016 these loans had been used to the extent of 64% of the maximum facility and the covenants included in the loan agreements had been amply satisfied.

The following tables set out the expected cash flows for future years arising from the Company's outstanding financial liabilities at 31 December 2016 and 2015.

31 December 2016 *(in euro thousand)*	Within 12 months	Between 1 and 5 years	Over 5 years
Non-current financial liabilities	31,049	61,482	89
Trade payables	41,172	-	-
Other payables and liabilities	33,622	-	-

31 December 2016 *(in euro thousand)*	Within 12 months	Between 1 and 5 years	Over 5 years
Non-current financial liabilities	31,333	92,301	263
Trade payables	37,179	-	-
Other payables and liabilities	28,341	-	-

Capital risk

The Company's capital management objectives aim at safeguarding its ability to continue to ensure optimal capital soundness. In particular, the ratio between the Company's financial debt and equity was 0.56 and 0.76 at 31 December 2016 and 2015 respectively, an improvement due to a decrease in financial liabilities. The fair value of trade receivables and other financial assets, trade payables, financial liabilities (measured at amortized cost) and other payables recognized as "current" in the statement of financial position does not significantly differ from the carrying amounts of these items at 31 December 2015, as they mainly relate to assets arising from commercial transactions for which settlement is expected in the short term.

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

Measurement of financial instruments at fair value

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

All outstanding instruments at 31 December 2016 are measured utilizing level 2 methodology, using observable market inputs (for example for derivatives: market rate curves, volatility provided by Reuters, credit spreads calculated on the basis of credit default swaps, etc.).

Estimates and Assumptions (note 5)

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

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

Contingent liabilities

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

Revenues (note 6)

This item may be analyzed as follows:

	December	
(in euro thousand)	**2016**	**2015**
Revenues from the Rai Group (*)	180,470	177,464
Revenues from third parties	34,746	34,842
- Systems and equipment hosting fees	*32,388*	*32,658*
- Other	*2,358*	*2,184*
Total revenues	**215,216**	**212,306**

(*) Revenues are net of the costs at margin of € 22,633 thousand (€ 19,819 thousand at 31 December 2015).

"Revenues" consists of revenues relating to the year arising from the provision of services forming part of the Company's ordinary operations.

Revenues rose by € 2,910 thousand from € 212,306 thousand in 2015 to € 215,216 thousand in 2016, an increase of 1.37%.

"Revenues from the Rai Service Agreement" amounted to € 180,470 thousand or 83.9% of total revenues for the year ended 31 December 2016 (€ 177,464 thousand or 83.6% of total revenues for the year ended 31 December 2015). The increase of € 3,006 thousand is mainly due to the new services requested by the customer as additions.

"Revenues from third parties" consist mainly of service revenues relating to (i) tower rentals, (ii) broadcasting, (iii) transmission and (iv) network services which the Company renders to third party customers other than Rai. There was a slight decrease of € 96 thousand (-0.3%) in these revenues over the previous year.

Other revenues and income (note 7)

This item may be analyzed as follows:

	Year ended 31 December	
(in euro thousand)	**2016**	**2015**
Grant income	35	59
Compensation for damages	304	155
Other income	66	87
Total other revenues and income	**405**	**301**

"Other revenues and income" increased by € 104 thousand (+34.6%) from € 301 thousand in the previous year to € 405 thousand in 2016. The increase is mainly due to "Compensation for damages" settled by insurance companies following damage caused to the Company's assets.

"Compensation for damages" was included in "Other income" in 2015.

Purchase of consumables (nota 8)

This item may be analyzed as follows:

	Year ended 31 December	
(in euro thousand)	**2016**	**2015**
Purchase of fuel	651	672
Purchase of combustibles	146	211
Miscellaneous tools	466	551
Technical material stocks	-	183
Change in inventory	81	(101)
Total purchase of consumables	**1,344**	**1,516**

"Purchase of consumables" decreased by € 172 thousand (-11.4%) from € 1,516 thousand in the previous year to € 1,344 thousand in 2016. This item mainly consists of the costs incurred for consumables (fuel and combustible for electricity generating groups and heating).

More specifically, the reduction in these costs principally reflects a decrease in combustible costs, purchases for tooling and technical items for the warehouse, partially offset by changes in inventory.

Cost of services (note 9)

This item may be analyzed as follows:

(in euro thousand)	Year ended 31 December 2016	2015
Non-employees		
- Compensation to directors and statutory auditors	598	570
- Other	970	784
Other services	2,877	2,843
Daily allowances, business travel and accessory staff costs	2,132	2,230
Intercompany service agreement	11,808	12,465
Maintenance and repairs	5,695	4,749
Transport and similar	217	240
Utilities	12,949	13,098
Leasing and rentals	15,673	15,159
Total cost of services	**52,919**	**52,138**

"Cost of services" increased by € 781 thousand (+1.5%) from € 52,138 thousand in 2015 to € 52,919 thousand in 2016. Set out below are the main changes in the above cost items and a description of the principal factors that led to these:

- "Intercompany service agreement" costs arise from the services provided by the Parent; there was a decrease of € 657 thousand between 2015 and 2016 mainly as the result of insourcing certain administrative activities previously performed as part of the service agreement and lower ICT service costs;
- "Maintenance and repairs" consists of all the costs incurred for maintaining the Company's assets; the balance of € 5,695 thousand represents an increase of € 946 thousand over the previous year mainly as the result of higher costs incurred for maintaining the contribution network;
- "Utilities" amounted to € 12,949 thousand in 2016 and principally include the costs incurred for electricity, telephone expenses and various utilities. The decrease of € 149 thousand over 2015 is mainly due to the new electricity supply contract effective from the second quarter of 2015 which provides for lower unit costs;
- "Leasing and rentals" consist mainly of the cost of renting buildings, hiring plant and equipment and hiring transmission circuits. The increase in 2016

is mainly due to the rise in costs incurred for leasing transmission resources for sports events connected with the new services provided to Rai;

- "Other services" amounting to € 2,877 thousand decreased by € 34 thousand over the 2015 figure. In 2016 this item included among others fees relating to the year for the legal audit of the annual accounts and other attestation services amounting to € 70 thousand.

Information pursuant to article 149-duodecies of the CONSOB Issuers' Regualtions
(in euro thousand)

		Fees for 2016
Type of engagement		
Legal audit of the accounts	PricewaterhouseCoopers S.p.A.	49
Semi-annual report	PricewaterhouseCoopers S.p.A.	21
Total cost of services		**70**

Changes have been made to the way in which the "Cost of services" is analyzed in 2016 following the adoption at group level of a new format for the financial statements.

Personnel costs (note10)

This item may be analyzed as follows:

	Year ended 31 December	
(in euro thousand)	**2016**	**2015**
Wages and salaries	35,686	35,389
Social security costs	9,815	9,955
Employee severance pay	2,110	2,161
Pensions and similar obligations	904	909
Retirement incentive costs	6,589	1,417
Other costs	136	240
Capitalized personnel costs	(2,012)	(2,505)
Total personnel costs	**53,228**	**47,566**

“Personnel costs” amounted to € 53,228 thousand in 2016 representing an increase of € 5,662 thousand, due mainly to non-recurring expenses incurred in connection with the Company’s voluntary retirement incentive plan; the first phase of this plan, which was carried out in 2015, envisaged the departure on a voluntary basis in 2016 of staff who reach pensionable age or the contributions entitlement by 31 December 2019, also compatible with the Company’s operational assessments. The second phase, initiated in December 2016, provides for an employee to leave the Company by 31 July 2017 by the above means but is extended to workers who regardless of when their pension requirements mature are interested in early termination of the employment relationship.

Excluding the effect of this plan, personnel costs increased by € 490 thousand (+1.1%) over 2015 (€ 46,149 thousand) mainly due to the effect of a reduction in capitalized personnel costs, which fell from € 2,505 thousand in 2015 to € 2,012 thousand in 2016.

Further details of the economic effects arising from the accounting treatment for employee benefits may be found in note 28 “Employee benefits”.

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

	Average number of employees for the year ended		**End of period number of employees for the year ended**	
(numbers)	**31 December 2016**	**31 December 2015 (*)**	**31 December 2016**	**31 December 2015**
Executives	22	18	22	22
Middle managers	133	133	153	134
Office workers	442	451	416	449
Manual workers	33	34	31	34
Total	**630**	**636**	**622**	**639**

(*) The numbers for the year ended 31 December 2015 are different from those previously reported due to a change in the way the average number of employees is calculated, which for 2016 also includes part-time workers.

The Company's average workforce decreased by 6 during the year from 636 in 2015 to 630 in 2016. In addition 35 people subscribed to the Company's retirement incentive scheme during the year of whom 13 effective from 1 January 2017.

Other costs (note 11)

	Year ended 31 December	
(in euro thousands)	**2016**	**2015**
Contribution to the control authorities	242	296
ICI/IMU/TASI	1,369	1,362
Taxes on production and consumption	1,057	1,056
Other indirect taxes, duties and other taxes	453	368
Other	512	607
Total other costs	**3,633**	**3,689**

"Other costs" decreased by € 56 thousand (-1.5%) from € 3,689 thousand in the previous year to € 3,633 thousand in 2016.

Amortization, depreciation and write-downs (note 12)

"Amortization and depreciation" forming part of "Amortization, depreciation and write-downs" amounted to € 38,349 thousand in the year ended 31 December 2016 (2015 € 47,204 thousand). The decrease of € 8,855 thousand is mainly due to the fact that certain assets reached the end of their depreciable useful lives in 2016 and that the useful life of transmission network systems and the radio links for the DVB-T television service was extended from 7 to 10 years, with an effect of € 4,780 thousand.

There was a positive balance of € 61 thousand on "Write-downs" in 2016 mainly due to the release to income of amounts accrued in the provision for bad and doubtful debts in previous years against receivables which were then subsequently collected.

This change had a net positive effect of € 3,251 thousand on profit for the year.

Provisions (note 13)

"Provisions" increased by € 187 thousand from € 450 thousand in 2015 to € 638 thousand in 2016. More specifically, provisions of € 370 thousand were made in 2016 as additions to the "lease provision", € 235 thousand to increase the provision for civil litigation, € 90 thousand to increase miscellaneous provisions and € 69 thousand to increase the provision for legal expenses, with the release of provisions to income amounting to € 126 thousand.

Financial income and expenses (note 14)

This item may be analyzed as follows:

	Year ended 31 December	
(in euro thousand)	**2016**	**2015**
Foreign exchange gains	18	16
Interest income from Parent Company	14	4
Other interest income	8	87
Total financial income	**40**	**107**
Interest on the employee benefit liability	(290)	(205)
Foreign exchange losses	(39)	(47)
Interest on loans	(1,302)	(1,444)
Interest expense on interest rate hedges	(44)	-
Interest adjustment on the provision for site decommissioning and restoration	(193)	(1,036)
Other, fees and expenses	(291)	(286)
Total financial expenses	**(2,159)**	**(3,018)**
Total net financial income	**(2,119)**	**(2,911)**

"Financial income" for 2016, which amounted to € 40 thousand, fell by € 67 thousand over 2015. This was mainly due a reduction in the items "Interest income from bank and postal accounts" and "Interest on past due trade receivables".

"Financial expenses" amounting to € 2,159 thousand in 2016 decreased by € 859 thousand over 2015, mainly due to a reduction in the item "Interest adjustment on the provision for site decommissioning and restoration", which amounted to € 193 thousand in 2016, mainly as the result of the use of a lower discount rate in 2015 (2%) which was then left unchanged in 2016.

"Interest on loans", amounting to € 1,302 thousand, consists of the interest expense for the year arising from the loan agreement signed on 15 October 2014 with Mediobanca, BNP Paribas, Intesa Sanpaolo and UBI Banca. This item, which fell by € 142 thousand over 2015, also includes the interest on the outstanding loans with Mediocredito Centrale and Cassa Depositi e Prestiti.

Income tax (note 15)

This item may be analyzed as follows:

	Year ended 31 December	
(in euro thousand)	**2016**	**2015**
Current taxes	21,870	19,260
Deferred taxes	(286)	737
Taxes pertaining to previous years	54	8
Total	**21,638**	**20,005**

"Current taxes" amounted to € 21,870 thousand in 2016 representing an increase of € 2,610 thousand over 2015, due to a higher pre-tax result and a rise in items which are not deductible from income for the year. This item consists of:

- IRES (corporate income tax) of € 18,485 thousand;
- IRAP (regional production tax) of € 3,385 thousand.

There was net deferred tax income of € 286 thousand in 2016 (expense of € 737 thousand in 2015), due mainly to the above-mentioned items which are not deductible from income for the year and a decrease in the IRES tax rate effective from 2017 (a reduction from 27.5% to 24% pursuant to Law no. 208/2015 – the 2016 budget law) that is applied to temporary differences giving rise to deferred tax liabilities for reversals occurring on or after 1 January 2017.

Deferred taxes consist of:

- movements on deferred tax assets of € 155 thousand;
- movements on deferred tax liabilities of € 132 thousand.

The following table provides a reconciliation between the theoretical tax charge and the effective tax charge for the years ended 31 December 2016 and 2015.

	Year ended 31 December			
(in euro thousand)	**2016**		**2015**	
Profit before income taxes	**63,452**		**58,948**	
Theoretical tax charge	17,449	27,5%	16,211	27,5%
Taxes pertaining to previous years	54		8	
Permanent differences	750		1,046	
IRAP	3,385		2,740	
Total	**21,638**	**34.1%**	**20,005**	**33.9%**

Property, plant and equipment (note 16)

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

Book value at 1 January 2016							
Cost at 1 January 2016	11,655	95,561	693,671	25,978	980	11,807	839,652
Accumulated depreciation at 1 January 2016	-	(63,722)	(528,342)	(20,950)	(824)	-	(613,838)
Impairment at 1 January 2016	-	(31)	(1,286)	-	-	-	(1,317)
Net book value at 1 January 2016	**11,655**	**31,808**	**164,043**	**5,028**	**156**	**11,807**	**224,497**
Changes in 2016							
Investments	**-**	**281**	**9,161**	**1,008**	**3**	**8,226**	**18,679**
Depreciation charge for the year	**-**	**(5,662)**	**(31,321)**	**(1,428)**	**(44)**		**(38,455)**
Impairment							
on existing assets	-	9	525	-	-		534
on disposed assets	-	-	1	-	-		1
	-	**9**	**526**	**-**	**-**		**535**
Disposals							
Cost	-	(13)	(1,185)	(41)	-	-	(1,239)
Accumulated depreciation	-	6	1,139	19	-		1,164
Net book value	**-**	**(7)**	**(46)**	**(22)**	**-**	**-**	**(75)**
Reclassifications	**-**	**652**	**7,116**	**113**	**-**	**(7,881)**	**-**
Book value at 31 December 2016							
Cost at 31 December 2016	11,655	96,481	708,763	27,058	983	12,152	857,092
Accumulated depreciation at 31 December 2016	-	(69,378)	(558,524)	(22,359)	(868)	-	(651,129)
Impairment at 31 December 2016		(22)	(760)				(782)
Net book value at 31 December 2016	**11,655**	**27,081**	**149,479**	**4,699**	**115**	**12,152**	**205,181**

"Property, plant and equipment" amounted to € 205,181 thousand at 31 December 2016, representing a decrease of € 19,316 thousand arising from the depreciation charge partially offset by the investments made during the year.

In addition, the useful life of transmission network systems and the radio links for the DVB-T television service, included in plant and machinery, was extended during the year from 7 to 10 years.

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

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

Intangible assets (note 17)

This item, which mainly consists of expenditure on software licenses, had a balance of € 2,215 thousand at 31 December 2016, representing an increase of € 384 thousand due to the effect of the investments made during the year, partially offset by the amortization charge. These assets are being systematically amortized over their useful life that the Company has estimated as 3 years.

The following table sets out movements for the year:

(in euro thousand)	Software	Intangible assets in progress and advances	Total intangible assets
Book value at 1 January 2016			
Cost at 1 January 2016 (*)	1,172	1,085	2,257
Accumulated amortization at 1 January 2016	(426)	-	(426)
Net book value at 1 January 2016	**746**	**1,085**	**1,831**
Changes 2016			
Investments	**265**	**548**	**813**
Amortization charge for the year	**(429)**		**(429)**
Impairment			**-**
Disposals			
Cost	-		-
Accumulated amortization	-		-
Net book value	**-**	**-**	**-**
Reclassifications	**470**	**(470)**	**-**
Book value at 31 December 2016			
Cost at 31 December 2016 (**)	1,907	1,163	3,070
Accumulated amortization at 31 December 2016	(855)	-	(855)
Net book value at 31 December 2016	**1,052**	**1,163**	**2,215**

(*) Stated net of fullly amortized software of € 9,658 thousand at 31 December 2015.

(**) Including € 565 thousand of software fully amortized in 2016.

There are no intangible assets with an indefinite useful life.

Current and non-current financial assets and liabilities (note18)

The following table sets out details of "Current financial assets" and "Non-current financial assets" at 31 December 2016 and 2015:

	Year ended 31 December	
(in euro thousand)	**2016**	**2015**
Receivables from the Parent Company	117	228
Other financial receivables	108	71
Total current financial assets	**225**	**299**
Prepayments and accrued income	111	174
Total non-current financial assets	**111**	**174**

"Receivables from the Parent Company" of € 117 thousand (€ 228 thousand at 31 December 2015) represent the balance due from the Parent Company on the intercompany current account for managing certain residual payments.

"Other financial receivables" of € 108 thousand (€ 71 thousand at 31 December 2015) consist of prepayments and accrued income of € 38 thousand and € 70 thousand respectively relating to bank fees on loans and payments received for services rendered.

Non-current financial assets consists of prepayments and accrued income of € 111 thousand, being a decrease of € 63 thousand over the previous year end.

The following table sets out details of "Current financial liabilities" and "Non-current financial liabilities" at 31 December 2016 and 2015:

31 December 2015 *(in euro thousand)*	**Within 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Total**
Payable to banks	30,169	90,049	144	120,362
Payable to other lenders	76	308	117	501
Total	**30,245**	**90,357**	**261**	**120,863**

31 December 2015 *(in euro thousand)*	**Within 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Total**
Payable to banks	30,201	60,300	50	90,551
Payable to other lenders	76	309	39	424
Total	**30,277**	**60,609**	**89**	**90,975**

"Payable to banks" includes the outstanding balance on a loan granted under an agreement with Mediobanca, BNP Paribas S.A., Intesa Sanpaolo S.p.A. and UBI Banca Società Cooperativa per Azioni. Under this agreement a medium-term loan was granted to the Company divided into two credit facilities, both to be used though cash draw-downs and both having a maturity of 30 September 2019.

More specifically:

- a term credit facility of up to € 120 million (of which approximately the whole amount has been drawn down) with interest payable at Euribor + 100 basis points; and
- a revolving credit facility of up to € 50 million with interest payable at Euribor + 120 basis points.

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

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

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

The carrying amount of the loan at 31 December 2016 stated in the above table approximates its fair value.

"Payable to banks" also includes the balance outstanding at 31 December 2016 of the ordinary loan granted by Mediocredito Centrale in connection with the investments financed by Law no. 488/92 – 31st call for tender which is repayable in six-monthly instalments and bears interest at an annual floating rate determined as the sum of the six-month Euribor rate plus an annual spread of 0.70%, and the liability for hedging derivatives on interest rates relating to an interest rate swap agreement, which had a fair value of € 76 thousand at 31 December 2016. The method by which the fair value of derivatives was determined is discussed in the paragraph "Financial risk management – measurement of financial instruments at fair value". The following table sets out the fair value of current and non-current derivatives that are liabilities:

	Year ended 31 December	
(in euro thousand)	**2016**	**2015**
Interest rate contracts	-	-
Total derivatives - current portion	**-**	**-**
Interest rate contracts	76	-
Total derivatives - non current portion	**76**	-
Total derivatives	**76**	**-**

Cash flow hedges regard interest rate hedges carried out by using interest rate swaps to hedge 50% of the value of the term loan. The negative fair value of derivatives hedging interest rates, amounting to € 76 thousand (€ nil at 31 December 2015), is recognized in non-current liabilities and suspended in the cash flow hedge reserve in equity.

"Payable to other lenders" consists mainly of the balance outstanding at 31 December 2016 of the subsidized loan granted by Cassa Depositi e Prestiti S.p.A. which is repayable in six-monthly instalments and bears interest at a subsidized rate of 0.50%.

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

	(in euro thousand)	Year ended 31 December 2016	2015
A.	Cash	-	-
B.	Cheques and bank and post office deposits	81,309	78,941
C.	Securities held for trading	-	-
D.	**Cash and cash equivalents (A) + (B) + (C)**	**81,309**	**78,941**
E.	**Current financial receivables**	**225**	**299**
F.	Current bank debt	(30,201)	(30,169)
G.	Current portion of non-current debt	-	-
H.	Other current financial payables	(76)	(76)
I.	**Current debt (F) + (G) + (H)**	**(30,277)**	**(30,245)**
J.	**Net current debt (I) - (E) - (D)**	**51,257**	**48,995**
K.	Non-current bank debt	(60,350)	(90,193)
L.	Bonds issued	-	-
M.	Other non-current patables	(348)	(425)
N.	**Net non-current debt (K) + (L) + (M)**	**(60,698)**	**(90,618)**
O.	**Net debt - ESMA/Net financial position**	**(9,441)**	**(41,623)**

Deferred tax assets and liabilities (note 19)

The following table sets out changes in deferred tax assets and liabilities:

(in euro thousand)	Year ended 31 December 2016	2015
Opening balance	**4,473**	**5,448**
Recognized in profit or loss	286	(737)
Recognized in comprehensive income	192	(238)
Closing balance	**4,951**	**4,473**
Of which:		
- deferred tax assets	5,003	4,657
- deferred tax liabilities	(52)	(184)

Changes in deferred tax assets may be analyzed as follows:

	Provisions for risks and charges	Employee benefits	Other items	Total
(in euro thousand)				
31 December 2015	**3,495**	**604**	**558**	**4,657**
Recognized in profit or loss	416	(15)	(247)	154
Recognized in comprehensive income	-	170	22	192
31 December 2016	**3,911**	**759**	**333**	**5,003**

(*) The tax effect of the retirement incentive scheme at 31 December 2015 (amounting to € 390 thousand) has been reclassified from employee benefits to provisions for risks and charges.

Changes in deferred tax liabilities may be analyzed as follows:

(in euro thousand)	
31 December 2015	**(184)**
Recognized in profit or loss	132
Recognized in comprehensive income	-
31 December 2016	**(52)**

Other non-current assets (note 20)

"Other non-current assets" of € 356 thousand (€ 339 thousand at 31 December 2015) regard guarantee deposits mainly arising from agreements for leased assets and equipment hosting.

Inventory (note 21)

This item may be analyzed as follows:

	Year ended 31 December	
(in euro thousand)	**2016**	**2015**
Contract work in progress	226	226
Raw materials and consumables	694	775
Total inventory	**920**	**1,001**

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

Trade receivables (note 22)

This item may be analyzed as follows:

	Year ended 31 December	
(in euro thousand)	**2016**	**2015**
Receivables from Rai	61,790	59,914
Receivables from customers	6,685	11,992
Provision for bad and doubtful debts	(1,476)	(1,573)
Total trade receivables	**66,999**	**70,333**

“Receivables from Rai” consist of the balances due to the Company from RAI under the Service Agreement. Further details may be found in the notes on “Revenues” and “Related party transactions”.

“Receivables from customers” arise mainly from service revenues relating to (i) tower rental, (ii) broadcasting, (iii) transmission and (iv) network services which the Company renders to third party customers other than Rai; the significant decrease of € 5,307 thousand is mainly due to the collection of an overdue debt from the public administration.

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

(in euro thousand)	
31 December 2015	**(1,573)**
Utlilizations	36
Charge for the year	-
Releases	61
31 December 2016	**(1,476)**

Other current receivables and assets (note 23)

This item may be analyzed as follows:

	Year ended 31 December	
(in euro thousand)	**2016**	**2015**
Receivables from the Parent for the tax consolidation	2,456	2,456
Accrued income and prepaid expenses	1,393	1,518
Other receivables	505	492
Total other current receivables and assets	**4,354**	**4,466**

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

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

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

Tax receivables (note 24)

This item may be analyzed as follows:

	Year ended 31 December	
(in euro thousand)	**2016**	**2015**
VAT receivable	317	314
Other taxes receivable	1	1
IRAP receivable	-	171
Total tax receivables	**318**	**486**

As discussed in the section "Related party transactions", the Company avails itself of the Group VAT offsetting procedure permitted by the Ministerial Decree of 13 December 1979 on the regulations for implementing the provisions of article 73, last paragraph, of Decree of the President of the Republic no. 633 of 26 October 1972, recognizing the following transactions with the Parent Company. In addition, the Company has additional receivables arising from applications for VAT refunds which do not form part of this offsetting procedure.

Cash and cash equivalents (note 25)

The balance on this item amounted to € 81,309 thousand (€ 78,941 thousand at 31 December 2015). The increase of € 2,368 thousand over the year is mainly due to cash generated by operating activities.

SHAREHOLDERS' EQUITY (NOTE 26)

Share capital

At 31 December 2016, Rai Way had a share capital of € 70,176 thousand consisting of 272,000,000 ordinary shares without nominal value.

Other reserves

"Other reserves" may be analyzed as follows:

(in euro thousand)	Year ended 31 December 2016	2015	Notes
Taxed extraordinary reserves	11,291	11,291	1,2,3
Reserves for accelerated deprectaion	9,360	9,360	1,2,3
Reserve for aligning the civil/fiscal values of business assets	8,938	8,938	1,2,3,4
Reserve for first-time adoption of IFRS	7,490	7,490	2
Reserve of cash flow hedge - rates	(54)	-	-
Total other reserves	**37,025**	**37,079**	

Key

1 For capital increases

2 For absorbing losses

3 For distribution to shareholders

4 In the case of utilization for purposes other than absorbing losses, the amount is subject to IRES

Earnings per share (note 27)

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

(In euro thousand, unless otherwise stated)	Year ended 31 December 2016	2015
Profit for the year	41,814	38,942
Average number of ordinary shares	272,000,000	272,000,000
Earnings per share (basic and diluted) in euro	**0.15**	**0.14**

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

Proposal for allocation of profit

The profit for the year of € 41,814,299.34 will be allocated in accordance with the resolution, set out below, that will be adopted by the Shareholders' Meeting of 28 April 2017:

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

resolves

1. to allocate € 2,090,715.00 of the 2016 net profit of € 41,814,299.34 to the legal reserve and distribute the remainder of € 39,723,584.34 to shareholders as a dividend;

2. to allocate a further amount of € 2,082,815.66 for distribution to shareholders, to be taken from the retained earnings reserve (which would then be left with a remaining balance of € 366,747.70);

3. as a consequence, to pay a total gross dividend of € 0.1537 to each of the outstanding ordinary shares, to be put into payment from 24 May 2017 with entitlement to payment, pursuant to article 83-terdecies of Legislative Decree no. 58/1998 and article 2.6.6, paragraph 2 of the Rules of the Markets organized and managed by Borsa Italiana S.p.A., on 23 May 2017 (the record date) after detaching coupon no. 3 on 22 May 2017 (the ex-dividend date)."

Employee benefits (note 28)

This item may be analyzed as follows:

	Year ended 31 December	
(in euro thousand)	**2016**	**2015**
Opening balance	20,319	21,326
Allocations	2,117	2,273
Interest on the obligation	289	205
Utlilization	(1,865)	(999)
Transfers to other funds/other movements	(2,868)	(2,153)
Actuarial gains / (losses)	707	(333)
Closing balance	**18,699**	**20,319**

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

(in euro thousand)	Year ended 31 December 2016	2015
Employee severance pay	17,820	19,437
Other provisions	879	882
Total employee benefits	**18,699**	**20,319**

The decrease of € 1,620 thousand mainly relates to utilizations for leavers subscribing to the voluntary retirement incentive scheme set up by the Company.

This item will decrease again in 2017, due principally to the retirement of employees under this plan on 31 December 2016 and those leaving under the new incentive plan introduced by the Company in 2016.

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

(%; years)	31 December 2016	2015
Discount rate	1.00%	1.53%
Inflation rate	1.50%	1.50%
Average annual employee leaving rate	4.83%	4.93%
Annual probability of requests for advances	1.00%	1.00%
Duration (years)	9.74	9.33

In using these assumptions the value was also calculated of the employee severance pay liability obtained from variations of +/- 50 bps in the discount rate used for the valuation, giving a result of € 16,990 thousand and € 18,711 thousand respectively.

"Other provisions" refer to the supplementary seniority indemnity provision and the Company's supplementary pension fund; the value of the liability obtained from variations of +/- 50 bps in the discount rate used for the valuation was also calculated in these cases, giving a result of € 676 thousand and € 755 thousand respectively.

Provisions for risks and charges (note 29)

Changes in this item may be analyzed as follows:

(in euro thousand)	1 January 2016	Charge for the year	Interest expense, releases, discounting	Utilizations	Releases	31 December 2016
Civil and administrative litigation	7,135	304	-	(314)	(126)	6,999
Accrued expenses	459	456	-	-	-	915
Other provisions for risks and charges	1,121	459	-	(556)	-	1,024
Decommissioning and restoration provision	9,638	-	193	(7)		9,824
Total provisions for risks and charges	**18,353**	**1,219**	**193**	**(877)**	**(126)**	**18,762**

"Provisions for risks and charges" consist of accruals for costs and losses of a specific nature whose existence is certain but whose amount cannot be precisely determined, or whose existence is probable and whose amount can be reliably estimated. This item mainly regards the costs associated with the risk arising from civil and administrative judicial proceedings and the related legal expenses, and the provision recognized for the costs of dismantling and restoring transmission sites that are owned by other parties.

Disbursements relating to this item cannot be estimated with any certainty as they mainly depend on the timescale for judicial proceedings and strategic and/or legislative decisions on the composition and nature of the network for broadcasting radio and television signals which are currently not predictable.

Trade payables (note 30)

(in euro thousand)	Year ended 31 December 2016	2015
Payables to suppliers	35,920	32,328
Payables to the Parent Company	5,252	4,839
Payables to other companies of the Rai Group	-	12
Total trade payables	**41,172**	**37,179**

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

"Payables to suppliers" amounted to € 35,920 thousand at 31 December 2016, representing an increase of € 3,592 thousand over the balance at 31 December 2015; this was mainly due to an increase in operating costs, and especially in the last quarter, over the previous year.

"Payables to the Parent Company" regard trade payables due to Rai. There was a balance of € 5,252 thousand at 31 December 2016 representing an increase of € 413 thousand over 31 December 2015.

Other current payables and liabilities (note 31)

This item may be analyzed as follows:

(in euro/thousand)	Year ended 31 December 2016	2015
Payables to personnel	11,096	6,814
Payables to pension and social security agencies	2,357	2,473
Other payables	441	460
Payables to the Parent Company for the tax consolidatio	18,483	16,507
Guarantee deposits received	230	236
Accrued income and deferred income	123	186
Payables to the Parent Company for Group VAT	892	1,665
Total other current payables and liabilities	**33,622**	**28,341**

“Payables to personnel” amount to € 11,096 thousand, representing an increase of € 4,282 thousand over 31 December 2015 which is mainly due to the voluntary retirement incentive scheme set up by the Company for which payment is expected to take place in 2017.

“Payables to the Parent Company for the tax consolidation” amount to € 18,483 thousand (€ 16,507 thousand at 31 December 2015) and consist of the IRES corporate income tax charge for the current year.

“Payables to the Parent Company for Group VAT” amounting to € 892 thousand (€ 1,665 thousand at 31 December 2015) represent the VAT liability balance at 31 December 2016.

Further details about transactions with the Parent Rai regarding the IRES and VAT consolidation may be found in the section “Related party transactions”, while tax payables not forming part of this procedure are reported in the following table (IRAP and VAT balances with deferred payment).

Tax payables (note 32)

This item may be analyzed as follows:

	Year ended 31 December	
(in euro thousand)	**2016**	**2015**
Payables for amounts withheld from wages and salaries	1,489	1,580
Payables for other amounts withheld and substitute tax	38	29
VAT payable	20	913
IRAP payable	627	-
Total tax payables	**2,174**	**2,522**

Commitments and guarantees (note 33)

Commitments at 31 December 2016 amounted to € 13.3 million (€ 10.2 million at 31 December 2015) and relate solely to technical investments.

Guarantees at 31 December 2016 amounted to € 66,749 thousand (€ 71,341 thousand at 31 December 2015) and mainly regard personal guarantees received for the obligations of other parties and guarantees of third parties pledged for the Company's obligations for liabilities and payables.

OTHER INFORMATION (NOTE 34)

Contingent liabilities

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

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

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

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

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

If in the future the circumstances discussed above should undergo developments that make it probable that the Company will incur costs that exceed the amount recognized in the provision for site decommissioning and restoration, all the necessary measures will be taken to protect the Company's interests and recognize the effects of the changed scenario in the financial statements in an adequate manner.

Compensation payable to Directors and Statutory Auditors (note 35)

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

	Year ended 31 December	
(in euro thousand)	**2016**	**2015**
Directors' compensation	519	490
Statutory auditors' compensation	79	80
Total directors and statutory auditors	**598**	**570**

Subsequent events (note 36)

On 19 January 2017, Mr. Nicola Claudio, a non-executive director not classified as an independent director, handed in his resignation as a director of the Company for reasons connected with his professional activity.

On 31 January 2017, the Board of Directors co-opted Mr. Valerio Zingarelli onto the board as a non-executive and non-independent director pursuant to article 2386, paragraph 1 of the Italian civil code to replace Mr. Nicola Claudio who resigned on 19 January 2016.

In February the Company was awarded Top Employers Italia certification for 2017. The Top Employers Institute annually certifies global excellence in the working conditions created by businesses for their employees by conducting an in-depth analysis covering nine areas of the HR selection, management, development and tRaining processes, in particular subjecting the information provided by companies to an attentive independent review.

Among the sectors reviewed by Top Employers, Rai Way in particular obtained higher scores for "Talent Strategy", Workforce Planning" and "Performance Management"; in this respect a positive impact on the results of the research was provided by tRaining and development, structured at levels increasingly more consistent with the Company's competitive dimension, and by participation/innovation initiatives such as the first edition of the "2016 Employee Award for Innovation and Simplification".

On 1 March 2017, the Company finalized a multi-year agreement for the use and maintenance of the Norba Group's radio and television broadcasting network. The Norba Group is Italy's number one local operator in terms of audience and has been a leader in the multi-media communication sector in the South of Italy for the past 40 years. On finalizing the agreement Rai Way acquired from Telenorba 100% of the capital of Sud Engineering Srl with 30 transmission sites that are situated in Puglia, Basilicata and Molise to be used for the planned purpose of hosting the workstations.

RELATED PARTY TRANSACTIONS (NOTE 37)

Details of the transactions the Company carried out with related parties in the years ended 31 December 2015 and 2014 are provided in the following; related parties are identified on the basis of IAS 24 *Related Party Disclosures*. The Company carries out transactions mainly of a commercial and financial nature with the following related parties:

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

Related party transactions are conducted under normal market conditions.

The following table sets out details of the Company's balances with related parties at 31 December 2016 and 2015:

(in euro thousand)	Parent Company	Key management personnel	Other related parties	Total
Non-current financial assets				
31 December 2016	-	-	-	-
31 December 2015	-	-	-	-
Current financial assets				
31 December 2016	117	-	-	**117**
31 December 2015	228	-	-	**228**
Current trade receivables				
31 December 2016	61,790	-	205	**61,995**
31 December 2015	59,914	-	164	**60,078**
Other current receivables and assets				
31 December 2016	2,456	-	10	**2,466**
31 December 2015	2,456	-	10	**2,466**
Current financial liabilities				
31 December 2016	-	-	-	-
31 December 2015	-	-	-	-
Trade payables				
31 December 2016	5,252	-	-	**5,252**
31 December 2015	4,839	-	12	**4,851**
Other current payables and liabilities				
31 December 2016	19,375	180	-	**19,555**
31 December 2015	18,173	169	123	**18,465**
Employee benefits				
31 December 2016	-	264	111	**375**
31 December 2015	-	247	109	**356**

The following table sets out details of the Company's transactions with related parties in the years ended 31 December 2016 and 2015:

(in euro thousand)	Parent Company	Key management personnel	Other related parties	Total
Revenues (*)				
Year ended 31 December 2016	202,676	-	427	**203,103**
Year ended 31 December 2015	197,056	-	227	**197,283**
Other revenues and income				
Year ended 31 December 2016	-	-	-	**-**
Year ended 31 December 2015	-	-	-	**-**
Purchase of consumables				
Year ended 31 December 2016	2	-	-	**2**
Year ended 31 December 2015	4	-	-	**4**
Costs of services				
Year ended 31 December 2016	12,584	60	12	**12,656**
Year ended 31 December 2015	13,087	-	12	**13,099**
Personnel costs				
Year ended 31 December 2016	(50)	2,821	920	**3,691**
Year ended 31 December 2015	33	2,515	1,024	**3,572**
Other costs				
Year ended 31 December 2016	115	-	-	**115**
Year ended 31 December 2015	22	239	-	**261**
Financial income				
Year ended 31 December 2016	14	-	-	**14**
Year ended 31 December 2015	4	-	-	**4**
Financial expenses				
Year ended 31 December 2016	-	-	-	**-**
Year ended 31 December 2015	-	-	-	**-**

(*) Figures are gross of the costs at margin from Parent Company of € 22,633 thousand (€ 19,718 thousand at 31 December 2015) and from other related parties of € zero (€ 101 thousand at 31 December 2015).

<u>*Parent Company*</u>

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

Financial agreements between Rai Way and Rai

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

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

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

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

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

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

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

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

- a nil balance for financial expenses for both 2016 and 2015;
- current financial assets of € 117 thousand at 31 December 2016 and € 228 thousand at 31 December 2015.

The 2000-2014 Service Agreement

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

The above-mentioned 2000-2014 Service Agreement was renegotiated on 31 July 2014, with effect from 1 July 2014. As a result of this agreement the

Company has recognized revenues and receivables as described in the sections "Revenues" and "Trade receivables" of these notes.

Service agreement with Rai and the rental agreement with related services

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

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

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

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

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

- cost of services of € 11,808 thousand and € 12,465 thousand in 2016 and 2015 respectively;
- trade payables of € 5,252 thousand and € 4,839 thousand at 31 December 2016 and 2015 respectively.

Tax consolidation

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

As a consequence of the tax consolidation the Company recognized "Other current payables and liabilities" of € 18,483 thousand and € 16,507 thousand at 31 December 2016 and 2015 respectively and "Other current receivables and assets" of € 2,456 thousand at 31 December 2016 as at 31 December 2015.

The Group's VAT regime

The Group avails itself of the Group VAT offsetting procedure permitted by Ministerial Decree of 13 December 1979 on the regulations for implementing the provisions of article 73, last paragraph, of Decree of the President of the Republic no. 633 of 26 October 1972, recognizing "Other current payables and liabilities" of € 892 thousand and € 1,665 thousand at 31 December 2016 and 2015 respectively with respect to the Parent Company.

Key management personnel

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

- cost of services of € 60 thousand and € nil in 2016 and 2015 respectively;
- personnel costs of € 2,821 thousand and € 2,515 thousand in 2016 and 2015 respectively;
- other costs of € nil and € 239 thousand in 2016 and 2015 respectively.

Other related parties

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

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

Rome, 9 March 2017

On behalf of the Board of Directors

The Chairman

Raffaele Agrusti

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

- The undersigned Stefano Ciccotti as Chief Executive Officer and Adalberto Pellegrino as manager responsible for drafting the corporate accounting documents of Rai Way S.p.A. certify the following, taking also into account the provisions of article 154-bis, paragraphs 3 and 4 of Legislative Decree no. 58 of 24 February 1998:
  - the adequacy in relation to the characteristics of the business and
  - the effective application of the administrative and accounting procedures for the preparation of the Company's annual financial statements during 2016.

- The assessment of the adequacy of the administrative and accounting procedures for the preparation of the annual financial statements for the year ended 31 December 2016 was performed on the basis of the process defined by Rai Way S.p.A., taking as reference the criteria established in the model "*Internal Controls – Integrated Framework*" issued by the *Committee of Sponsoring Organizations of the Treadway Commission.*

- The undersigned also certify that:

  - the annual financial statements of Rai Way S.p.A. for the year ended 31 December 2016:

  a) have been prepared in accordance with the applicable international accounting standards adopted by the European Union pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

  b) agree with the balances on the books of account and the accounting entries;

  c) give a true and fair view of the financial position, results of operations and cash flows of the issuer;

- the report on operations includes a reliable analysis of the performance and results for the year as well as the issuer’s position, together with a description of the main risks and uncertainties to which it is exposed.

Rome, 9 March 2017

Stefano Ciccotti	**Adalberto Pellegrino**
Chief Executive Officer	Manager responsible for drafting corporate accounting documents

Auditor's report

INDEPENDENT AUDITORS' REPORT
IN ACCORDANCE WITH ARTICLES 14 AND 16
OF LEGISLATIVE DECREE N° 39 OF 27 JANUARY 2010

RAI WAY SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE N° 39 OF 27 JANUARY 2010

To the shareholders of
Rai Way SpA

Report on the financial statements

[illegible]

Directors' responsibility for the financial statements

[illegible]

Auditors' responsibility

[illegible]

[illegible]

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Rai Way SpA as of 31 December 2016, and of the result of its operations and cash flows for the year then ended in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/2005.

Report on compliance with other laws and regulations

Opinion on the consistency with the financial statements of the report on operations and of certain information set out in the report on corporate governance and ownership structure

We have performed the procedures required under auditing standard (SA Italia) n° 720B in order to express an opinion, as required by law, on the consistency of the report on operations and of the information set out in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree n° 58/98, which are the responsibility of the directors of Rai Way SpA, with the financial statements of Rai Way SpA as of 31 December 2016. In our opinion, the report on operations and the information in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Rai Way SpA as of 31 December 2016.

Rome, 6 April 2017

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.

Report of the Board of Statutory Auditors

BOARD OF AUDITORS REPORT

(pursuant to Art. 153 of Italian Legislative Decree no. 58 of 24 February 1998)

TO THE SHAREHOLDERS' MEETING

OF RAI WAY S.p.A.

Registered office Via Teulada, 66 – 00195 Rome

Fully paid-up Share capital € 70,176,000

Tax ID and VAT number: 05820021003

REA number: RM-925733

company managed and coordinated by

RAI - Radiotelevisione italiana S.p.A.

* * *

Dear Shareholders,

Pursuant to Art. 153 of Italian Legislative Decree no. 58/1998 (hereinafter also referred to as "TUF") and to Art. 2429 subsection 2 of the Italian Civil Code, the Board of Auditors of RAI WAY S.p.A. (hereinafter also referred to as "RAI WAY" or the "Company"), is required to report to the Shareholders' Meeting called to approve the financial reports on operations conducted during the year and on any omissions and/or irregularities discovered. The Board of Auditors is also required to make any necessary proposals regarding the financial statements and their approval, as well as other matters for which the Board is responsible.

During the year ending 31 December 2016 the Board of Auditors carried out its supervisory activities in accordance with the law and pursuant to the Rules of Conduct recommended for the Board of Auditors by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (Italian National Council of Accountants and Business Advisors); in particular, because the Company issues shares that are listed on Borsa Italiana, the Board has performed the activities set out under Italian Legislative Decree no. 58 of 24 February 1958, taking into consideration the instructions and recommendations issued by CONSOB, and those set out under Italian Legislative Decree no. 39 of 27 January 2010.

In accordance with the provisions of the Articles of Association, the current Board of Auditors was appointed by the Shareholders' Meeting of 28 April 2015 and is composed of Maria Giovanna Basile (Chairman), Giovanni Galoppi (statutory auditor), and Massimo Porfiri (statutory auditor); its mandate will end with the approval of the Financial Statements for the year ending 31 December 2017.

The Company adopted the Code of Conduct for listed companies prepared by the Corporate Governance Committee for listed companies; in 2016, it adopted the new recommendations contained in the Code of Conduct (hereinafter, the "Code of Conduct") as illustrated by the Corporate Governance and Ownership Report for 2016. With reference to this, the Board of Auditors supervised the Company's concrete implementation of the provisions set out in the Code of Conduct.

The Board of Auditors confirmed that its members satisfied the criteria for independence established by the Code of Conduct; the members of the Board conformed to the limit on the number of posts held as established by the Regolamento Emittenti Consob (CONSOB Issuers' Regulations).

In 2016, the Company again confirmed conformity with the requirements of independence for directors defined as "independent" by the Code of Conduct and by law; the composition of the Board is also consistent with the gender representation provisions established by Italian Law no. 120 of 12 July 2011. Furthermore, the Board of Auditors verified that the Board of Directors carried out, with reference to 2016 and in fulfilment of the provisions established by the Code of Conduct, a self-assessment of the size, composition and functioning of the Board itself and of the Committees formed in relation to it, and that an entirely positive assessment resulted from the analysis of said process, both in terms of activity and functioning, and in terms of the size and composition of the Board itself.

Since listing its shares on Borsa Italiana's MTA, the Company has adopted a special Code on Privileged Information that covers the correct management of information flows and the processing of confidential or privileged information. The Board of Directors revised this Code in 2016 to comply with the coming into effect of EU Rule no. 596/2014, which provides new regulations regarding market abuses.

The Company's Financial Statements as at 31 December 2016 are submitted to you for approval. They have been prepared in accordance with the International Accounting Standards (IAS - IFRS) issued by the International Accounting Standards Board (IASB) adopted by the European Union and conform to the rules issued to implement Art. 9 of Italian Legislative Decree no. 38/2005.

The Directors' Report on Operations summarizes the main risks and uncertainties to which the Company is exposed and describes the Company's business outlook. The Company's Financial Statements consist of the balance sheet, income statement, statement of changes in equity, cash flow statement, and notes. The Financial Statements include the Directors' Report on Operations, above-mentioned Corporate Governance and Ownership Report pursuant to Art. 123-*bis* of the TUF, and the Report on Remuneration pursuant to Art. 123-*ter* of the TUF.

<u>Significant transactions</u>

Significant transactions and events are reported in the Directors' Report on Operations. Specifically:

- on 29 January 2016, pursuant to Art. 2986 subsection 1 of the Italian Civil Code, the Board of Directors appointed Nicola Claudio as Director to replace Salvatore Lo Giudice, who had tendered his resignation in November 2015;
- on 21 March 2016, the Board of Directors approved the Financial Statements for 2015, together with the proposal to distribute the dividend and the proposal to authorize the purchase of treasury shares;

- on 21 March 2016, the Chairman of the Board of Directors, Camillo Rossotto, tendered his resignation as Director, and thus as Chairman of the Board of Directors, such resignation to take effect at the end of the next shareholders' meeting;
- on 28 April 2016, the Shareholders' Meeting approved the Financial Statements for 2015 and the distribution of a dividend amounting to Euro 36,995,219.11 (Euro 0.1432 per share);
- on 28 April 2016, the Shareholders' Meeting resolved to integrate the Board of Directors with the appointment, until the expiration of the entire Board (i.e., until the Meeting to approve the Financial Statements at 31 December 2016), of Nicola Claudio, in confirmation of the previous co-option, and of Raffaele Agrusti, appointing Mr. Agrusti as Chairman of the Board of Directors;
- the Meeting also approved the Board of Directors proposal to authorize the purchase and disposal of treasury shares;
- on 16 December 2016, as part of an extensive program to enhance its role as leader in the transmission and broadcasting of television and radio signals, the Company obtained its first 3-year ISO9001:2015 certification for "Design and planning of systems and networks for television and radio signal transmission and broadcasting."

Significant transactions and events after year-end:

- on 19 January 2017, Director Nicola Claudio tendered his resignation as Company Director for reasons deriving from his professional activities;
- on 31 January 2017, the Board of Directors appointed by co-option Valerio Zingarelli as non-executive and non-independent director of the Company to replace Nicola Claudio;
- on 1 March 2017, the Company stipulated a multi-year agreement for the operation and maintenance of the Norba Group's television and radio transmission network. Norba Group transmits to Italy's largest local audience and has been the leader in multimedia communication in southern Italy for 40 years;

- simultaneously with the above-mentioned agreement, the Company purchased from Telenorba the entire share capital of Sud Engineering Srl, with 30 transmission sites in the Apulia, Basilicata and Molise regions, in light of expected hosting of transmission sites.

An audit has been carried out by the auditing firm PricewaterhouseCoopers S.p.A. (hereinafter also referred to as "PwC") whose current nine-year mandate (years 2014 – 2022) was decided by a Shareholders' resolution on 4 September 2014 at the suggestion of the Board of Auditors.

No particular problems were identified while carrying out the appropriate checks and controls.

Considering the activities performed and in light of the instructions contained in the relevant CONSOB Notices, the Board of Auditors notes the following:

a. it monitored compliance with the law and the Bylaws and has nothing to report in this context;
b. it attended meetings, including not only the Shareholders' Meeting, but the meetings of the Board of Directors, the Control and Risks Committee and the Remuneration and Appointments Committee, and obtained from the Directors the required information on the activity carried out and on the transactions of greatest economic, financial and capital-related importance that have been passed by resolution and implemented during the year; the transactions of greatest economic, financial and capital-related importance that were examined are exhaustively described in the Company's Annual Report that accompanies the Financial Statements, to which reference should be made. On the basis of the information made available to the Board, the Board can reasonably deem that the transactions implemented by the Company are consistent with the law and the Bylaws and they are not clearly imprudent, risky, potentially in conflict of interest or contrary to the resolutions passed by the Shareholders' Meeting or such that they would compromise the integrity of the Company's assets;

c. neither the Board of Directors nor the auditing firm indicated the existence of atypical or unusual transactions carried out with third parties or related parties, nor have they been reported directly;
d. in the Annual Report and the Notes to the Financial Statements for 2015, the Board of Directors provided an exhaustive description of the most important transactions performed with related parties, and these were identified on the basis of international accounting standards and the recommendations issued by CONSOB on this matter; reference should be made to these documents in relation to identifying the type of transactions in question and the associated economic, capital-related and financial effects, as well as on the procedural methods adopted to ensure that said transactions are performed in compliance with criteria for transparency, as well as procedural and substantive correctness. At its meeting on 4 September 2014, the Company's Board of Directors approved the "Procedure for Transactions with Related Parties", which remained in force for the entire 2016 accounting period and was intended, further to the Company's shares being listed on Borsa Italiana's MTA, precisely to regulate related party transactions. This procedure was published on the Company's website and the main points are also described in of the Corporate Governance and Ownership Report for 2016. The Board monitored the conformity of the aforementioned procedure with current legislation, the provisions of the Civil Code and the implementation rules issued by CONSOB and deems that this constitutes an adequate degree of supervision in terms of the performance of said transactions. The Board confirms that related party transactions were arranged in accordance with the approval and execution methods set out in the aforementioned procedure.

   All the related party transactions reported in the Company's Notes to the Financial Statements for 2016 were performed in the interests of the Company, they fall within ordinary management activity and are regulated by market conditions in terms of consistency;

e. to the extent of its obligations, it monitored the adequacy of the Company's organizational structure, in relation to compliance with the principles of proper administration, through direct observations, collecting information from those in charge of the competent business functions and through meetings with the auditing firm. The Board confirms that the current organizational model is both adequate to support the Company's development and consistent with requirements for monitoring;
f. it monitored methods for concrete implementation of the rules of corporate governance provided in the code of conduct (i.e., Corporate Governance) which the Company, in a public disclosure, states that it applies. As mentioned above, pursuant to Art. 123-*bis* of the TUF the Company prepared its annual Corporate Governance and Ownership Report for 2016, approved on 9 March 2017, which provides information on (i) the corporate governance practices applied by the Company; (ii) the principal characteristics of existing risk management and internal control systems, including in relation to the financial reporting process; (iii) mechanisms applied in conducting the Shareholders' Meeting, its main powers, the rights of Shareholders, and methods for their exercise; (iv) the composition and operation of administrative and control bodies and of their committees, as well as the other information required by Art. 123-*bis* of the TUF;
g. it participated in all meetings of the Remuneration and Appointments Committee and of the Board of Directors, and monitored adoption of the Remuneration Policy for Directors and key executives, in line with provisions of the Code of Conduct of listed companies issued by Borsa Italiana S.p.a., as well as of the Remuneration Report as per art. 123-*ter* of the TUF;
h. it monitored the financial reporting process, the adequacy of the Company's administrative-accounting system and the reliability of the latter in correctly representing operations, as well as in relation to the principles of proper administration while performing Company

activities, and has no observations to report in this context. It carried out the relevant checks by obtaining information from the head of the Chief Financial Officer's department at the Company (also taking into account the role held by the Manager responsible for drafting corporate accounting documents), as well as by examining business documents and analyzing the results of the work performed by the auditing firm.

With reference to the Company's Financial Statements for 2016, the Managing Director and the Manager responsible for drafting corporate accounting documents confirmed: (i) that they are adequate in terms of the characteristics of the business and the effective application of the administrative and accounting procedures for the preparation of the Financial Statements for the year; (ii) that the contents of said Financial Statements conform with the applicable international accounting standards recognized by the European Union pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and Council, established on 19 July 2002; (iii) that the Financial Statements concerned are consistent with the records and accounting entries and provide a true and accurate representation of the Company's capital, economic and financial position; (iv) that the Annual Report includes a reliable analysis of the performance and the operating result, as well as of the Company's situation, together with a description of the main risks and uncertainties to which it is exposed. The aforementioned declaration also confirmed that the adequacy of the administrative and accounting procedures for preparing the Company's Financial Statements for 2016 was checked on the basis of the procedure established by the Company, with reference to the criteria set out in the Internal Controls – Integrated Framework document issued by the Committee of Sponsoring Organizations of the Treadway Commission;

i. the Company confirmed that it prepared the Financial Statements for 2016 in accordance with the IAS – IFRS international accounting standards recognized by the European Union pursuant to Regulation

(EC) no. 1606/2002, in force as at the end of 2016. Furthermore, the Company's Financial Statements for the year 2016 were drafted on a going concern basis and using the conventional historical cost criterion, except for the valuation of financial assets and liabilities for which application of the fair value criterion is mandatory. The Company's Notes to the Financial Statements, provide an analytical description of the accounting standards and valuation criteria adopted. With reference to recently issued accounting standards, the Notes to the Financial Statements refer to (i) the accounting standards approved by the European Union that are not yet applicable and (ii) accounting standards not yet approved by the European Union;

j. the Board of Auditors examined the Board of Directors' proposal in relation to the allocation and distribution of profit for the year 2016 and of the partial distribution of an available reserve (retained earnings reserve), and has no observations to report;

k. the Board of Auditors received adequate information on activities performed in 2016 by the Supervisory Body pursuant to Italian Legislative Decree no. 231/2001; the examination of said activities did not reveal evidence of events and/or situations that would need to be mentioned in this Report. The Corporate Governance and Ownership Report for 2016, approved by the Board of Directors and to which reference is made, includes a description of the principle elements of the Organization, Management and Control Model adopted by the Company as at the date of the Report itself. It states that an updated edition of the Model was approved in 2016 with specific regard to market abuse, containing updates inherent to the above-mentioned European regulations that became effective in July 2016 as well as the internal procedures consequently adopted by the Company with regard to Insider Information and Internal Dealing. It is appropriate to mention that the Company has made the Head of Internal Auditing the Head of Anti-corruption; therefore, on 29 January 2016, the Board approved an update of the Three-year Anti-corruption Plan previously adopted. This Plan is based on the aims and principles of the National Anti-corruption Plan (Italian Law no. 190/2012), with the objective of reducing the risk of crimes of corruption to which the Company is potentially exposed, in coordination with Model 231. The Plan is monitored and updated annually and, in this context, it should be noted that on 31 January 2017, the Board of Directors approved a new amendment to the Plan;

l. it reported that Rai Way is managed and coordinated by the parent company RAI in accordance with legal obligations and in particular with the observance of the conditions set out under Art. 37 of the CONSOB Regulations on Markets. Reference is made to a specific Regulation regarding the management and coordination role exercised by the parent company RAI in relation to the Company (approved by the Board of Directors at its meeting on 4 September 2014 and effective as of the date on which the Company's shares were listed on Borsa Italiana's MTA market), which is also mentioned in the aforementioned Corporate Governance and Ownership Report;

m. it assessed and supervised the adequacy and effectiveness of the Internal Control and Risk Management System (ICRMS), mainly through meetings with the person in charge of the Company's Internal Audit department, as well as by reference to the documentation received from the Director in charge of the ICRMS and the Manager responsible for drafting accounting documents and those received from the auditing firm. Constant participation in the work of the Control and Risks Committee by the Board of Auditors allowed the Board to coordinate the performance of its own control activities over the ICRMS with the activities of the Committee itself, specifically by receiving information on the results of Audits aimed at checking the adequacy and effectiveness of the internal control system, compliance with the law and with company procedures and processes, as well as activities to implement improvement plans for same. It received the 2016 Audit Plan, approved by the Board of

Directors, as well as periodic updates on the progress of the Plan and on any corrective actions identified. In light of the checks conducted and the absence of any significant issues, and based on periodic reports by the Control and Risks Committee, it is reasonable to assume that the Internal Control and Risk Management System is adequate and effective; for completeness, we note that certain aspects of the ICRMS, with specific reference to risks considered and to Key Performance Indicators ("KPI") were updated in 2016;

n. as "Committee for internal control and auditing" pursuant to Art. 19 of Italian Legislative Decree no. 39/2010, it monitored: i) the financial reporting process, ii) the effectiveness of the internal control, internal auditing and risk management systems, iii) the auditing of the annual accounts and iv) the independence of the firm appointed to carry out the audit, in particular, with regard to the provision of non-auditing services to the Company. For such purpose, the Board worked with the Control and Risks Committee to coordinate their respective responsibilities and to avoid overlapping of activities. The Board's participation in the Committee's works facilitates coordination and information exchange between the two bodies;

o. it met with representatives from the auditing firm, who told the Board about the auditing plan they had prepared, how it had been executed and the results that had emerged; from these meetings, there emerged no events or situations, regarding either the audit or any failings of the internal control system, that need to be noted in this report;

p. today, PwC, the auditing firm, issued its Report pursuant to Articles 14 and 16 of Italian Legislative Decree no. 39/2010, stating that the Financial Statements for the year ending 31 December 2016 provide a true and accurate representation of the Company's capital and financial position, its financial result and its cash flows for the year ending on that date. Furthermore, with reference to the Financial Statements for the accounting year, the auditing firm confirmed that the Annual Report and the information contained in the Corporate Governance and Ownership Report, as specified in Art. 123-bis, paragraph 4 of Italian Legislative Decree no. 58/98, are consistent with the Financial Statements;

q. the auditing firm likewise confirmed today that no "fundamental issues" or "significant failings" were identified during the audit;
r. pursuant to Art. 17, paragraph 9, letter a) of Italian Legislative Decree no. 39/2010, it received from the auditing firm confirmation of said firm's independence along with a notice confirming the absence of non-auditing services provided to the Company by the auditing firm or by any of its subsidiaries or affiliates; pursuant to Art. 17, paragraph 9, letter b) of Italian Legislative Decree no. 39/2010, it also discussed with the auditing firm the risks associated with the independence of same as well as the measures adopted by the auditing firm to limit said risks.

In performing the supervisory activities described above during 2016, the Board of Auditors met 13 times, attended 12 meetings of the Board of Directors, and attended the single Shareholders' Meeting; it took part in 10 meetings of the Control and Risks Committee and 11 meetings of the Remuneration and Appointments Committee.

During the accounting year, no complaints were received and no irregularities were reported to the Board of Auditors.

In 2016, the Board issued opinions and formulated observations with specific regard to:

- the remuneration of the person in charge of the Internal Auditing role, as well as the budget assigned to the role itself
- the Audit Plan
- the appointment by co-option of director Nicola Claudio on 29 January 2016
- the proposal regarding the purchase and disposal of treasury shares resolved by the Shareholders' Meeting of 28 April 2016.

In performing the supervisory activities detailed above and on the basis of the information obtained from the auditing firm, no omissions and/or irregularities or, in any event, notable issues that would need to be reported to the supervisory authorities or mentioned in this Report were discovered.

Conclusions

The Financial Statements for the period ending 31 December 2016, as proposed by the Board of Directors, present a net profit of € 41,814,299.34.

The Annual Report conforms to law and is consistent with the Board of Directors' resolutions and with the results of the Financial Statements.

The Annual Report and the Notes contain adequate information on the year's operations; the section containing the disclosure on related-party transactions was inserted in the Notes in compliance with IFRS.

Based on the supervisory activities performed during the year and the results of the data and information exchanged with the auditing firm, the Board of Auditors confirms that there are no obstacles to approving the Financial Statements as at 31 December 2016 or to approving the draft resolutions formulated by the Board of Directors in relation to, apart from said approval, the allocation of profit for the year and the partial distribution of the available reserve, which is recorded under "Retained earnings."

Rome, 6 April 2017

The Board of Auditors

Maria Giovanna Basile

Giovanni Galoppi

Massimo Porfiri

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