

1H2018 Results Presentation

26 July 2018

FORWARD LOOKING STATEMENTS

This presentation contains forward-looking statements regarding future events and the future results of Rai Way that are based on current expectations, estimates, forecasts, and projections about the industries in which Rai Way operates, as well as the beliefs and assumptions of Rai Way's management. In particular, certain statements with regard to management objectives, trends in results, margins, costs, rate of return and competition tend to be forward-looking in nature. Words such as “expects”, “anticipates”, “targets”, “goals”, “projects”, “intends”, “plans”, “believes”, “seeks” and “estimates”, variations of such words and similar expressions, are intended to identify such forward-looking statements. These forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict because they relate to events and depend on circumstances that will occur in the future. Therefore, Rai Way's actual results may differ materially and adversely from those expressed or implied in any forward-looking statements. They are neither statements of historical fact nor guarantees of future performance. Rai Way therefore cautions against relying on any of these forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, economic conditions globally, the impact of competition, political, economic and regulatory developments in Italy. Any forward-looking statements made by or on behalf of Rai Way speak only as of the date they are made. Rai Way undertakes no obligation to update any forward-looking statements to reflect any changes in Rai Way's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

Rai Way Participants

- Aldo Mancino, Chief Executive Officer
- Adalberto Pellegrino, Chief Financial Officer
- Giancarlo Benucci, Head of Corporate Development & IR

Key messages

- 2018 progressing well:
 - Top-line supported by CPI and New Services for Rai
 - Adjusted EBITDA solidly growing at +4,3% with profitability above 54%
 - Further improvement in Net Income, up 13,1%

- Contract with RAI for MUXes coverage extension secured

- Refarming process ongoing
 - New PNAF 2018 released: outcome based on the guidelines included in the 2018 Budget Law, with AGCOM also flagging up some criticalities
 - Authorities' activity under way: tender for 5G frequencies published and upcoming publication of roadmap by MiSE

- 2018 outlook confirmed

Finalization of contract for Coverage Extension

- The contract follows RAI obligation, as per the Service Contract with the Government, to assure a coverage for the thematic MUXes (MUX2, MUX3, MUX4) of at least 95%

SCOPE & TIMING OF THE CONTRACT

- Extension of 2 / 3 MUXes' DTT UHF network from current ca. 400 to ca. 1,000 sites
- Progressive activation between 2019 and 2020

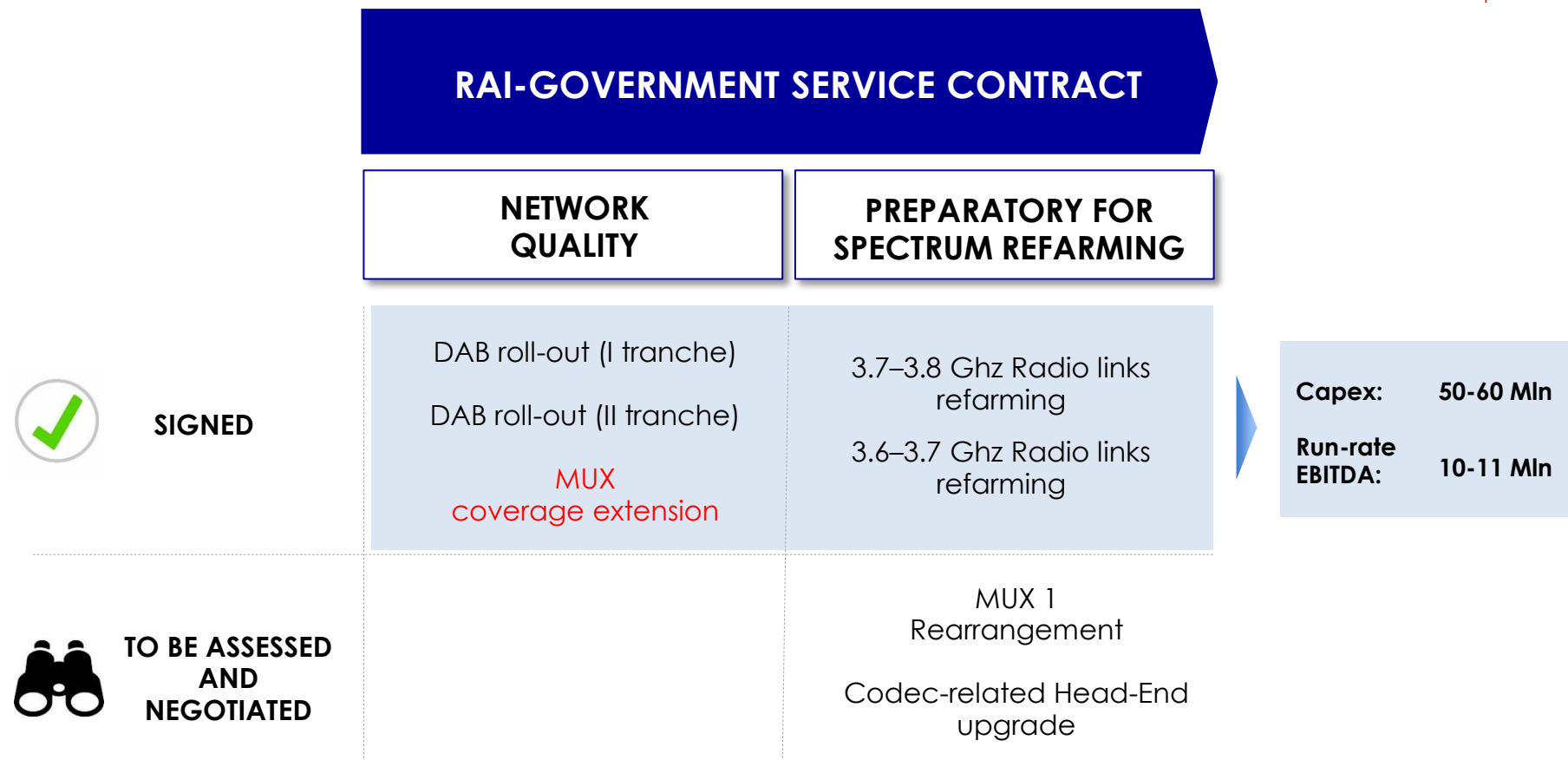
FINANCIALS *(Run-rate from 2021)*

- CAPEX: 40-50 Mln, depending on final project scope
- Run-rate contribution:
 - 9-11 Mln of revenues
 - profitability above Rai Way current level
- Project IRR >10%, in line with target

- Compared to Industrial Plan assumptions:
 - Lower contribution in 2019
 - Higher contribution from 2020 due to overall CAPEX exceeding the targets

Rai-Government Service Contract unlocking activity

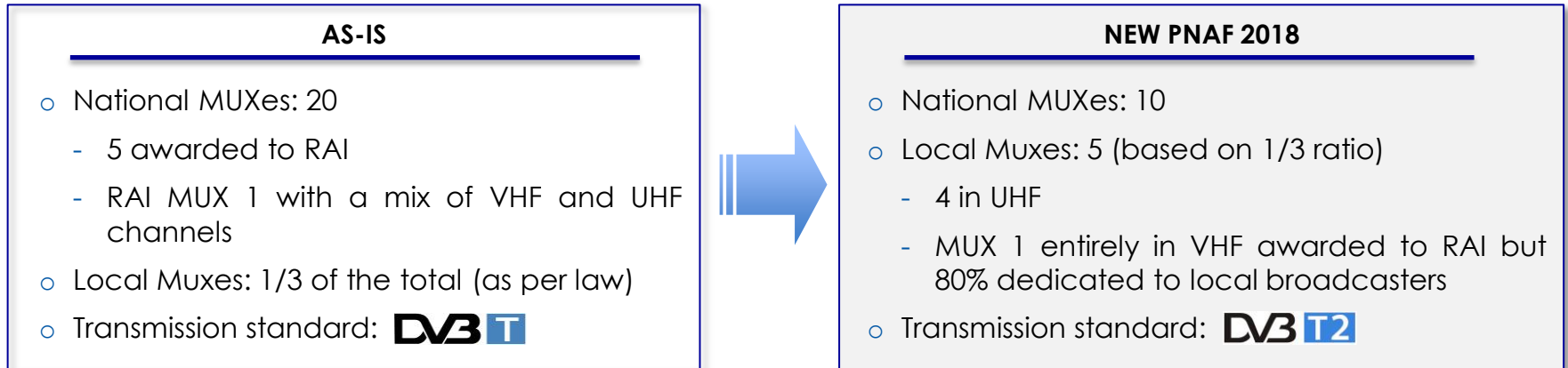
New vs. 1Q2018 presentation



- Investments on network to:
 - Support growth
 - Mitigate eventual risks from 700 MHz band refarming

New PNAF 2018 released by AGCOM

- New National Frequency Plan (PNAF 2018) approved by AGCOM reflecting the guidelines included in the 2018 Budget Law



- AGCOM flagged up some criticalities on the transition to the new system that may lead to a revision of the Plan:
 - 1/3 frequencies allocation to local operators may not reflect actual demand
 - Conversion of current rights of use of frequency into rights of use of transmission capacity difficult to be implemented
- Configuration and allocation of MUX1 key to assess final impact on Rai Way

Main guidelines for refarming in the Budget Law: Rai Way business model to mitigate impact



Conversion of current RoU of frequency into RoU of transmission capacity on DVB-T2 MUXes, with most advanced compression standard



Reduction in number of managed MUXes for Rai



Investments for technological upgrade



and allocation of national MUXes
Compression standard
Availability of T2-ready TV sets



MUX 1 rearrangement in VHF band with 80% of capacity to regional operators and 20% to RAI for regional contents



Investments for MUX1 rearrangement



Necessity for coverage extension for other MUXes



Technical solution to bring the MUX entirely in VHF



State compensation to finance investments for network upgrade



Clients' financing




Allocation of the compensation among network operators

IMPAIRMENTS ON RAI WAY

OPEN POINTS

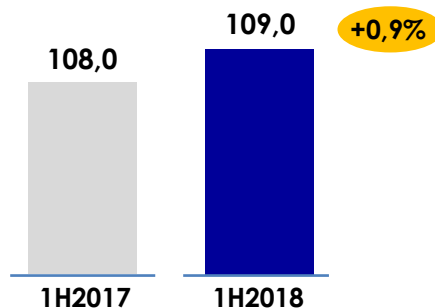
- Full visibility expected in the next months after finalization of roadmap for the release of frequencies (by MISE) and definition of criteria to award frequencies to national network operators (by AGCOM)

1H2018 Financial Highlights

 % YoY growth

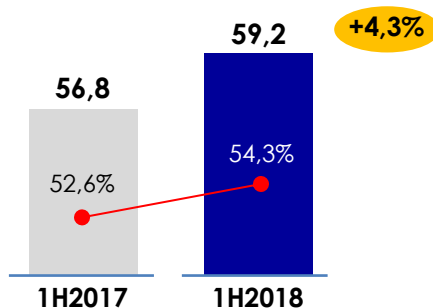
Mln Eur; %

Core Revenues

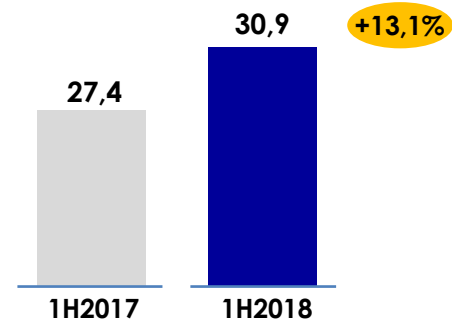


Adjusted EBITDA

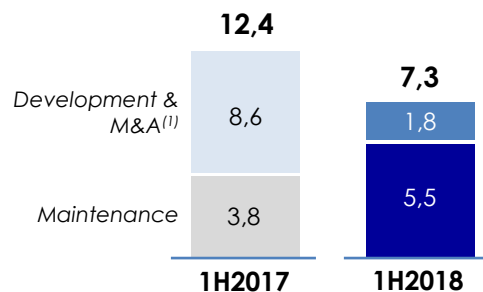
• Adjusted EBITDA margin



Net Income

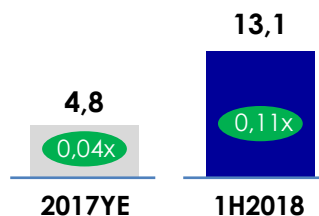


Capex

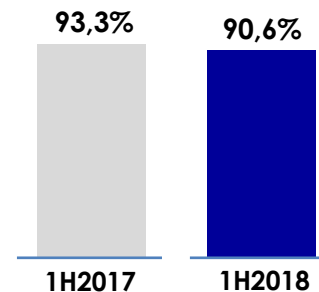


Net Debt

• Net Debt / 1-y rolling Adjusted EBITDA



Cash conversion⁽²⁾



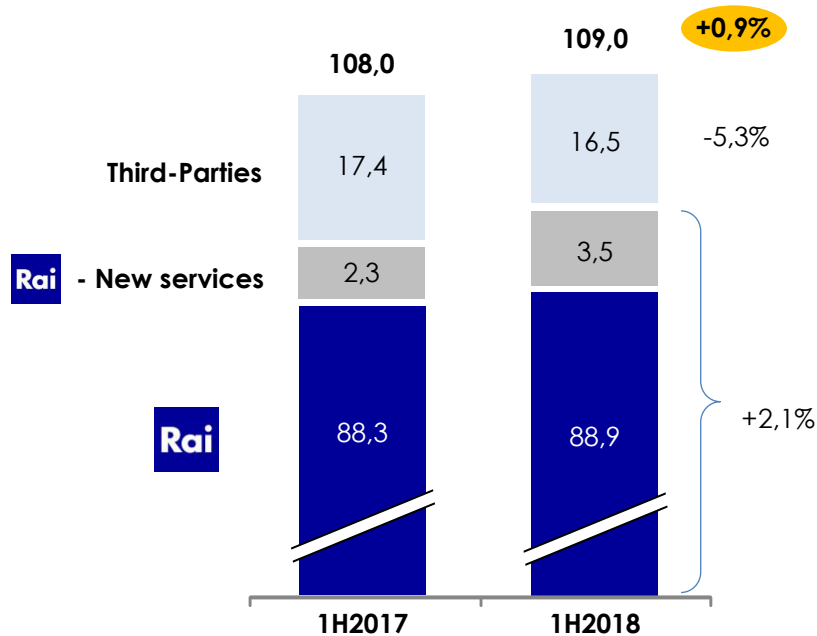
1) M&A capex = equity acquired

2) Cash conversion = (Adj. EBITDA – Maintenance Capex) / Adj. EBITDA

Core Revenues

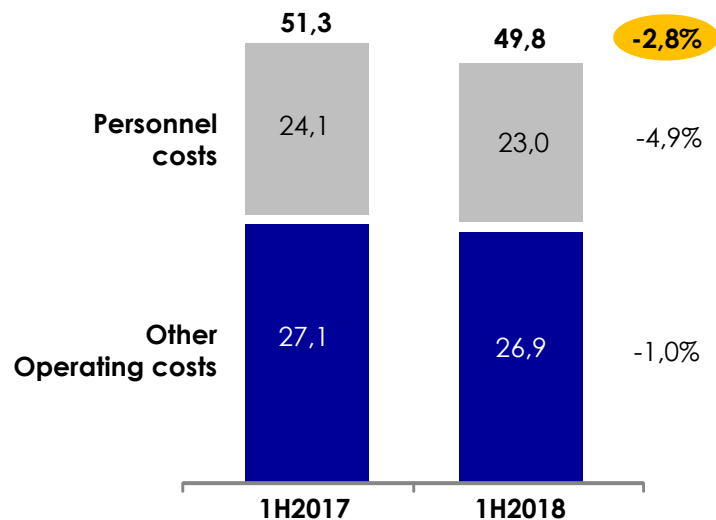
% YoY growth

Mln Eur; %



- Revenues from RAI up 2,1% driven by:
 - ✓ Indexation to CPI on fixed-consideration
 - ✓ Higher contribution from New Services, also benefitting from *una tantum* fee on new services
- Revenues from Third-Party customers down 5,3% (-4,4% excluding non-core items) impacted by volumes optimization by MNO customers

Mln Eur; %



- Excluding capitalization, personnel costs declined by approx. 3,6% vs. 1H2017 driven by reduction of headcount and variable components of wages
- Other Operating costs benefitted from further efficiencies on Rents and Intercompany

<i>Eur Mln, %</i>	2Q 2017	2Q 2018	% YoY	1H 2017	1H 2018	% YoY
Core Revenues	54,2	54,9	1,4%	108,0	109,0	0,9%
Other Revenues	0,0	0,0		0,0	0,0	
Adj. EBITDA	28,5	29,5	3,6%	56,8	59,2	4,3%
% margin	52,6%	53,7%		52,6%	54,3%	
One-offs	-0,6	0,0		-0,6	-0,3	
EBITDA	27,8	29,5	6,0%	56,1	58,9	5,0%
% margin	51,4%	53,7%		52,0%	54,1%	
D&A ⁽¹⁾	-8,3	-8,2	-1,2%	-16,4	-16,2	-1,7%
EBIT	19,6	21,4	9,0%	39,7	42,8	7,8%
Net financial expenses	-0,4	-0,3	-15,0%	-0,8	-0,7	-18,1%
Pre Tax Profit	19,2	21,0	9,5%	38,9	42,1	8,3%
Taxes	-5,6	-5,0	-11,6%	-11,5	-11,1	-3,0%
% tax rate	29,3%	23,6%		29,6%	26,5%	
Net Income	13,6	16,1	18,2%	27,4	30,9	13,1%

• **1H18 Net Income up 13,1% at € 30,9m driven by:**

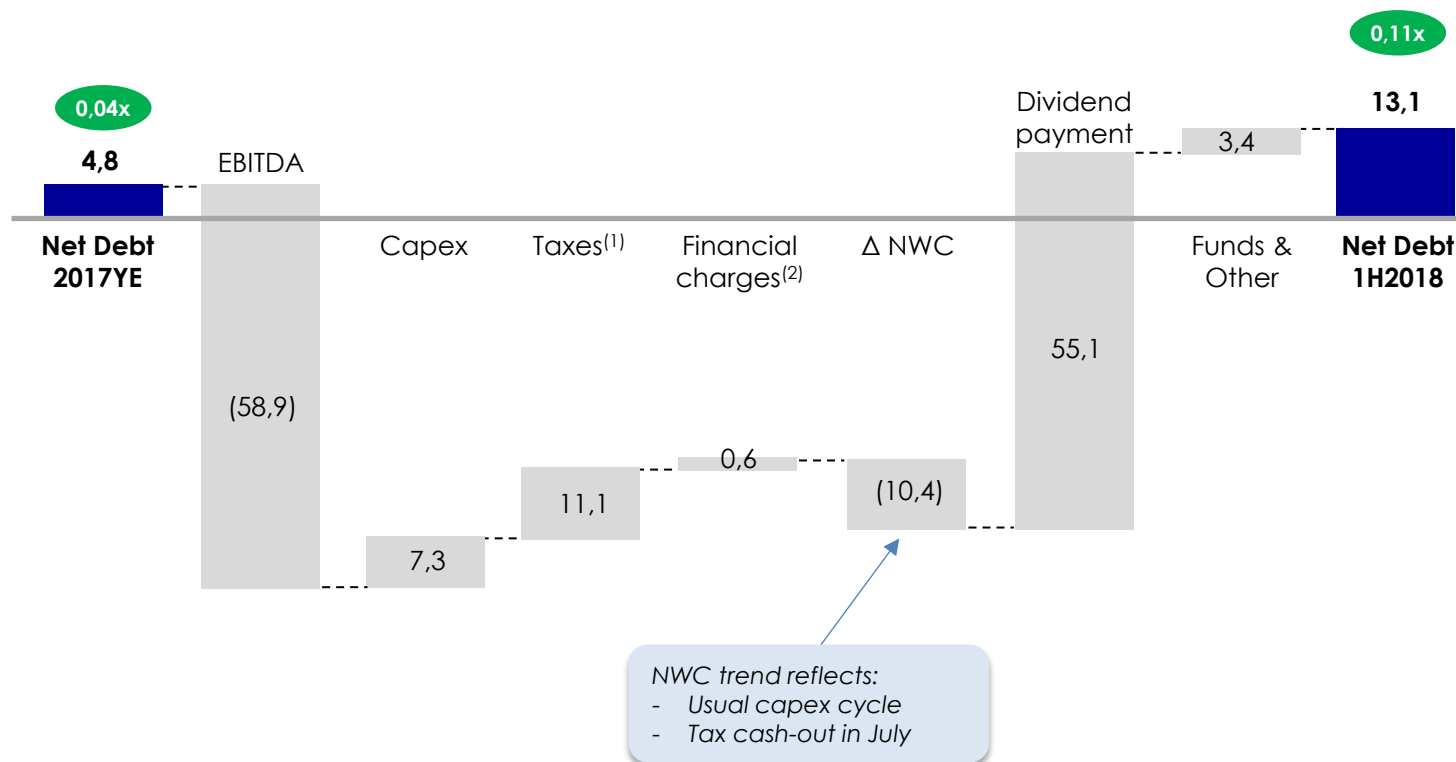
- Further improvement in profitability, with margin up 170bp vs. 1H17 at 54,3%
- Lower one-off expenses
- Lower tax rate, positively impacted by deferred taxes

(1) Including provisions

Cash flow generation

Net Debt/ 1y rolling Adj. EBITDA

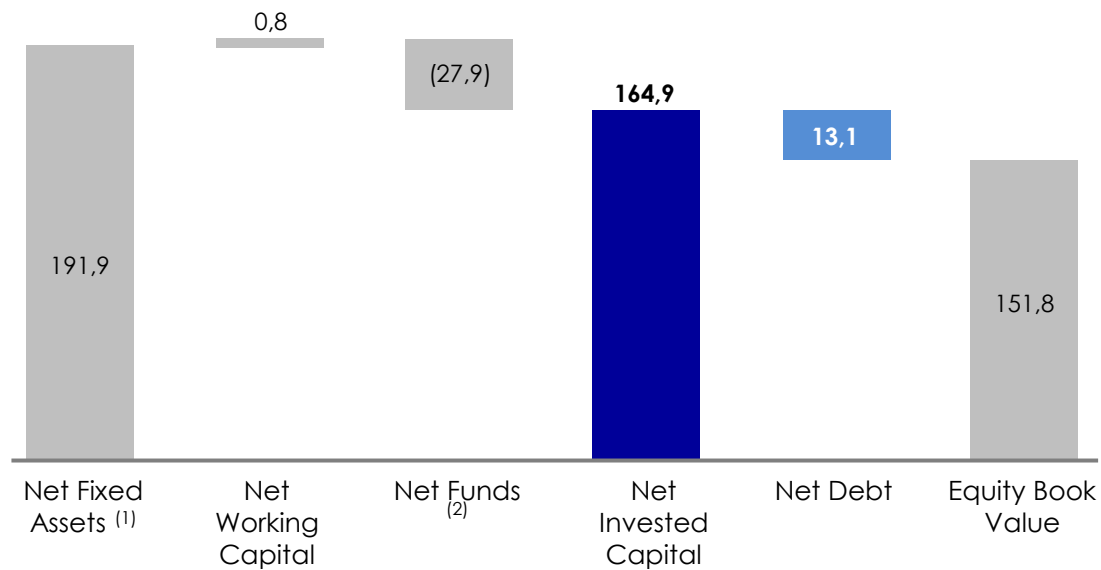
Mln Eur



(1) P&L taxes
(2) P&L financial charges excluding interests on the employee benefit liability

Balance sheet

Mln Eur



(1) Including long-term financial items

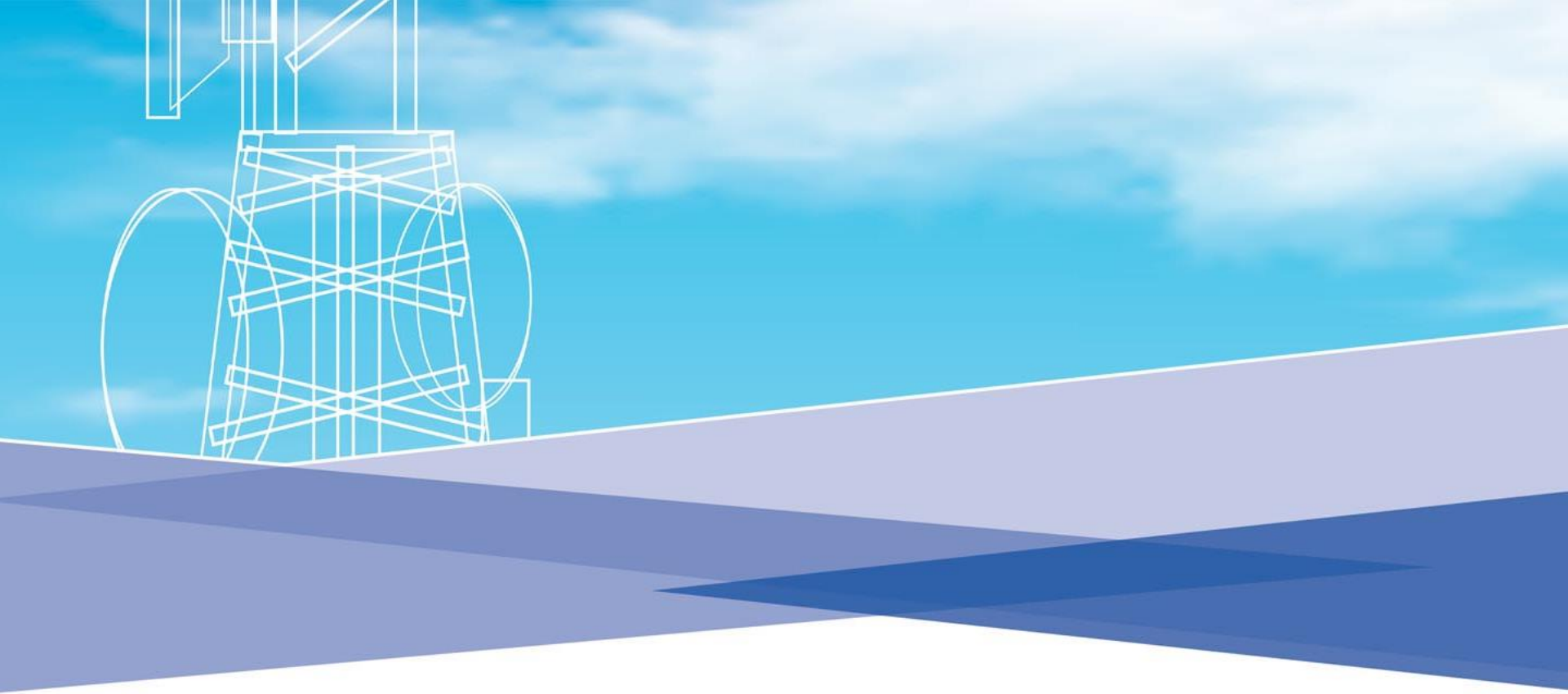
(2) Net funds include employee termination indemnities, provision for risks and deferred taxes

- **ADJUSTED EBITDA**

- 2018 Adjusted EBITDA to keep growing organically

- **CAPEX**

- 2018 maintenance capex expected in the range of 9% of core revenues; going forward, the average level of 8,5% of core revenues is confirmed



Q&A Session

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Upcoming events

Date

Event

13/11/2018

3Q2018 results

Appendix



Detailed summary of Income Statement

(€m; %)	2Q17	2Q18	1H17	1H18
Core revenues	54,2	54,9	108,0	109,0
Other revenues	0,0	0,0	0,0	0,0
Purchase of consumables	(0,3)	(0,3)	(0,6)	(0,6)
Service costs	(12,7)	(12,9)	(24,9)	(24,8)
Personnel costs	(12,3)	(11,3)	(24,6)	(23,0)
Other costs	(1,1)	(0,9)	(1,9)	(1,7)
Opex	(26,4)	(25,4)	(51,9)	(50,1)
Depreciation and amortization	(8,3)	(8,2)	(16,5)	(16,2)
Provisions	0,0	0,0	0,0	0,0
Net Operating profit	19,6	21,4	39,7	42,8
Net Finance income (expenses)	(0,4)	(0,3)	(0,8)	(0,7)
Profit before income taxes	19,2	21,0	38,9	42,1
Income taxes	(5,6)	(5,0)	(11,5)	(11,1)
Profit for the year	13,6	16,1	27,4	30,9
EBITDA	27,8	29,5	56,1	58,9
EBITDA margin	51,4%	53,7%	52,0%	54,1%
Non recurring expenses	(0,6)	0,0	(0,6)	(0,3)
Adjusted EBITDA	28,5	29,5	56,8	59,2
Adjusted EBITDA margin	52,6%	53,7%	52,6%	54,3%

Summary of Balance Sheet

(€m)	2017FY	1H2018
Non current assets		
Tangible assets	188,7	179,8
Intangible assets	11,2	11,1
Financial assets, holdings and other non-current assets	0,4	1,3
Non-current tax assets	2,2	3,3
Total non-current assets	202,4	195,5
Current assets		
Inventories	0,9	0,9
Trade receivables	72,0	74,3
Other receivables and current assets	5,4	6,0
Current financial assets	0,1	0,3
Cash	55,9	32,4
Current tax assets	0,0	0,1
Total current assets	134,3	114,0
TOTAL ASSETS	336,7	309,5

(€m)	2017FY	1H2018
Equity		
Share capital	70,2	70,2
Legal reserves	12,2	14,0
Other reserves	37,0	37,1
Retained earnings	57,0	30,5
Total equity	176,4	151,8
Non-current liabilities		
Non-current financial liabilities	30,6	15,5
Employee benefits	16,4	15,3
Provisions for risks and charges / Allowances	16,0	15,8
Other non-current liabilities	0,0	0,3
Non-current tax liabilities	0,0	0,0
Total non-current liabilities	63,0	47,0
Current liabilities		
Commercial debt	37,7	34,8
Other debt and current liabilities	28,9	42,6
Current financial liabilities	30,3	30,3
Current tax liabilities	0,4	3,1
Total current liabilities	97,3	110,8
TOTAL NET EQUITY AND LIABILITIES	336,7	309,5

Summary of Cash Flow Statement

(€m)	2Q2017	2Q2018	1H2017	1H2018
Earnings before taxes	19,2	21,0	38,9	42,1
Depreciation and amortization	8,3	8,2	16,5	16,2
Provisions and others	(0,3)	1,0	0,6	1,5
Net financial Income	0,3	0,3	0,7	0,6
Other non-monetary items	0,0	0,0	0,0	(0,8)
Net operating CF before change in WC	27,5	30,4	56,6	59,6
Change in inventories	0,0	0,0	0,0	0,0
Change in accounts receivable	8,5	(1,4)	(5,9)	(2,3)
Change in accounts payable	0,3	0,1	(7,3)	(2,9)
Change in other assets	0,1	0,7	(1,6)	(0,6)
Change in other liabilities	(6,5)	(3,5)	2,2	3,8
Use of funds	(0,5)	(0,7)	(0,5)	(0,7)
Payment of employee benefits	(1,1)	(1,6)	(1,7)	(2,0)
Change in tax credit/liabilities	0,9	0,6	0,0	0,6
Taxes paid	(21,1)	0,0	(21,1)	0,0
Net operating cash flow	8,0	24,8	20,7	55,5
Investment in tangible assets	(2,9)	(6,1)	(4,7)	(6,9)
Sale of tangible assets	0,1	(0,0)	0,1	0,0
Investment in intangible assets	(0,3)	(0,4)	(0,3)	(0,5)
Sale of intangible assets	0,0	0,0	0,0	0,0
Change in other non-current assets	0,0	(1,0)	0,0	(1,0)
Change in holdings	0,0	0,0	0,0	0,0
Change in non-current financial assets	0,0	0,0	0,0	0,0
Interest received	0,0	(0,0)	0,0	(0,0)
Companies consolidation	(0,3)	0,0	(7,4)	0,0
Investing cash flow	(3,4)	(7,5)	(12,2)	(8,2)
(Decrease)/increase in medium/long-term debt	(0,1)	(0,1)	(15,1)	(15,1)
(Decrease)/increase in current financial liabilities	10,3	0,1	12,2	(0,1)
Change in current financial assets	(0,1)	0,0	(0,1)	(0,2)
Interest paid	(0,1)	(0,0)	(0,4)	(0,3)
Dividends paid	(41,8)	(55,1)	(41,8)	(55,1)
Financing cash flow	(31,8)	(55,0)	(45,2)	(70,7)
Change in cash and cash equivalent	(27,1)	(37,7)	(36,7)	(23,5)
Cash and cash equivalent (beginning of period)	72,1	70,1	81,3	55,9
Cash and cash equivalent of newly consolidated companies (beginning of period)	0,0	0,0	0,4	0,0
Cash and cash equivalent (end of period)	45,0	32,4	45,0	32,4