# RAINBOW

## Rainbow S.r.l.

# Restated consolidated financial statements for the years ended 31 December 2017, 2016 and 2015

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# Rainbow Group

# Restated consolidated financial statements for the years ended 31 December 2017, 2016 and 2015

## Consolidated statement of profit or loss for the years ended 31 December 2017, 2016 and 2015

| *(Euro thousands)* | | Year ended 31 December | | |
|---|---|---|---|---|
| | **Note** | **2017** | **2016** | **2015** *Restated* |
| Revenue | 7 | 66,768 | 56,328 | 44,177 |
| Other revenue and income | 8 | 19,989 | 17,737 | 7,294 |
| **Total revenue** | | **86,757** | **74,064** | **51,471** |
| Change in inventories | 9 | (1,178) | (409) | 24 |
| Raw materials, consumables and goods | 10 | 7,855 | 6,451 | 6,146 |
| Services | 11 | 14,921 | 10,084 | 10,321 |
| Personnel | 12 | 32,410 | 29,619 | 11,062 |
| Depreciation and amortisation expenses | 13 | 15,254 | 7,012 | 7,430 |
| Provisions and write-downs | 14 | 1,866 | 1,175 | 3,021 |
| Other operating costs | 15 | 6,317 | 6,207 | 4,841 |
| **Total operating costs** | | **77,445** | **60,138** | **42,844** |
| **Operating profit** | | **9,311** | **13,926** | **8,627** |
| Finance income | 16 | 2,611 | 1,553 | 289 |
| Finance costs | 17 | (747) | (903) | (582) |
| Exchange gains and losses | 18 | (604) | 231 | 1,343 |
| Investment income (costs) | 19 | (4,400) | (1,100) | (1,100) |
| **Profit before tax** | | **6,171** | **13,708** | **8,576** |
| Income tax expense | 20 | (3,193) | (4,429) | (3,460) |
| **Profit for the year** | | **2,978** | **9,279** | **5,116** |

| | | | |
|---|---|---|---|
| **Profit for the year** | **2,978** | **9,279** | **5,116** |
| Attributable to: | | | |
| Owners of the Parent Company | 2,137 | 9,302 | 5,051 |
| Non-controlling interests | 841 | (23) | 66 |

## Consolidated Statement of cash flows for the years ended 31 December 2017, 2016 and 2015

| | | Year ended 31 December | | |
|---|---|---|---|---|
| *Euro thousands* | **Note** | **2017** | **2016** | **2015** |
| | | | **Restated** | **Restated** |
| ***CASH FLOWS FROM OPERATING ACTIVITIES*** | | | | |
| Profit for the year | | 2,978 | 9,279 | 5,116 |
| Adjustments for: | | | | |
| Income tax expense | | 3,193 | 4,429 | 3,460 |
| Finance costs | | 532 | 739 | 345 |
| Impairment loss recognised on investments | | 4,400 | 1,100 | 1,100 |
| Income from business combination price adjustment | 52 | (2,364) | (1,259) | |
| Net foreign exchange gain/loss | | 604 | (231) | (1,343) |
| Interest income on financial assets | | (9) | (77) | (52) |
| Income from fair value measurement of financial assets | | (22) | (53) | |
| Net gain on disposal of intangible assets | | | | (2,659) |
| Phantom option plan costs | | 265 | | |
| Depreciation and amortisation expenses | | 15,254 | 7,012 | 7,430 |
| Provisions & write-downs | | 1,866 | 1,175 | 2,230 |
| ***Cash flows from operating activities before movements in working capital*** | | **26,697** | **22,114** | **15,627** |
| Change in trade receivables | | (5,136) | (171) | 1,383 |
| Change in foreign production tax credits | | 2,565 | (5,579) | (3,056) |
| Change in trade payables | | 2,013 | 3,064 | (5,555) |
| Change in other assets/liabilities | | (8,519) | (988) | (4,612) |
| Change in provisions and employee benefit obligation | | 28 | (2,155) | (1,284) |
| Change in advances and deferred income | | (1,211) | (2,731) | 3,842 |
| ***Total*** | | **16,438** | **13,554** | **6,345** |
| Income taxes paid | | (3,057) | (882) | (5,247) |
| Finance costs paid | | (479) | (717) | (277) |
| ***Net cash generated by operating activities (A)*** | | **12,902** | **11,955** | **821** |
| ***CASH FLOWS FROM INVESTING ACTIVITIES*** | | | | |
| Expenditure on intellectual property rights and internally developed assets | | (13,598) | (13,506) | (9,404) |
| Disposal of intellectual property rights | | | 4,000 | |
| Expenditure on other intangible assets | | (76) | (156) | (377) |
| Expenditure on tangible assets | | (1,320) | (1,438) | (308) |
| Net cash outflow on business combinations | 52 | (15,851) | (2,803) | (509) |
| Net cash outflow on financial assets | | (2,499) | (661) | 619 |

## Statement of changes in equity for the years ended 31 December 2017, 2016 and 2015

| *(Euro thousands)* | **Capital** | **Legal reserve** | **Share premium reserve** | **Trans-lation reserve** | **IAS 19 reserve** | **Other reserves** | **Profit - owners of the Company** | **Equity - owners of the Company** | **Equity – non-controlling interests** | **Total equity** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2015** | **3,900** | **780** | | **23** | **(452)** | **36,197** | **4,131** | **44,579** | **(788)** | **43,791** |
| Allocation of profit for the year | | | | | | 4,131 | (4,131) | **0** | | **0** |
| Capital increase (Note 35) | 50 | | 3,555 | | | | | **3,605** | | **3,605** |
| Total comprehensive income for the year | | | | (91) | 42 | 130 | 5,051 | **5,132** | 34 | **5,166** |
| Other changes | | | | | | | | **0** | (29) | **(29)** |
| **Balance at 31 December 2015 (restated)** | **3,950** | **780** | **3,555** | **(68)** | **(410)** | **40,458** | **5,051** | **53,315** | **(783)** | **52,532** |
| Allocation of profit for the year | | 10 | | | | 5,041 | (5,051) | 0 | | 0 |
| Total comprehensive income for the year | | | | 192 | (59) | 43 | 9,302 | 9,478 | (26) | 9,452 |
| **Balance at 31 December 2016 (restated)** | **3,950** | **790** | **3,555** | **124** | **(469)** | **45,542** | **9,302** | **62,793** | **(809)** | **61,984** |
| Allocation of profit for the year | | | | | | 9,302 | (9,302) | 0 | 0 | 0 |
| Total comprehensive income for the year | | | | (341) | (12) | (24) | 2,137 | 1,760 | 873 | 2,633 |
| Change in scope of consolidation (Note 52) | | | | | | (13,511) | | (13,511) | 3,127 | (10,384) |
| **Balance at 31 December 2017** | **3,950** | **790** | **3,555** | **(217)** | **(481)** | **41,308** | **2,137** | **51,041** | **3,192** | **54,233** |

## Notes to the restated consolidated financial statements

These consolidated financial statements, which include financial information pertaining to the year ended 31 December 2017 and restated financial information for the years ended 31 December 2016 and 2015 (hereinafter the “Restated consolidated financial statements”), have been prepared by the Directors of Rainbow S.r.l. for the sole purpose of their inclusion in the Registration Document (hereinafter the “Prospectus”) in connection with the proposed admission to listing on the STAR Segment of the MTA (Mercato Telematico Azionario) market, the electronic equities market organised and run by Borsa Italiana S.p.A., subsequent to the transformation of the parent, Rainbow S.r.l., into an S.p.A. (to be approved on 26 February 2018).

## General information

Rainbow Group operates in the family entertainment industry and is a provider of multimedia publishing and animation services to third parties. The Group entities directly develop and produce animated and multimedia content, by covering the entire production process from pre-production (script-writing and the development of characters and environments) through to post-production (3D effects, voice casting, music, etc.) and by handling the concession and/or sale of rights to animated series with a view to the generation of royalties and revenue arising from sales of products inspired thereby.

Rainbow S.r.l. (hereinafter “the Parent”) was set up in Italy in 1995, it is registered with the Ancona Business Register (registration No.: 128985) and with the Ancona Economic and Administrative Register (tax code: 01398510428), while its registered office is located in Via Brecce, Loreto (AN), Italy.

A summary is provided below of the Parent's ownership structure:

| **Name** | **31/12/2017** *(number of quotas)* | **% holding 2017** | **31/12/2016 and 31/12/2015** *(number of quotas)* | **% holding 2016 and 2015** |
|---|---|---|---|---|
| Straffin S.r.l. | 55,600,000 | 70.38% | 54,600,000 | 69.11% |
| Viacom International Media Networks Italia S.r.l. | 23,400,000 | 29.62% | 23,400,000 | 29.62% |
| The Ward Family Trust | | | 1,000,000 | 1.27% |
| **Total** | **79,000,000** | **100%** | **79,000,000** | **100%** |

2015 financial year and the related tax effect; lastly, recognition of the impact of these adjustments on the statement of financial position and equity reserves at 31 December 2016.

d. the restatement of the consolidated statement of cash flows for the years ended 31 December 2016 and 2015 to take account of the impact of the adjustments described above and of other adjustments and reclassifications made in both years in order to consistently present cash flows in the consolidated financial statements over the three year period, having also taken account of the new presentation methods adopted for the preparation of the consolidated statement of cash flows for the year ended 31 December 2017.

Moreover, at both the 2016 and 2015 year ends, goodwill was reclassified from other intangible assets to a separate line in the consolidated statement of financial position, in line with the presentation adopted in the consolidated statement of financial position at 31 December 2017.
The impact of the above adjustments and reclassifications made to the historical consolidated figures for the years ended 31 December 2016 and 2015, and as approved by the Board of Directors on 27 May 2016 and 31 March 2017, respectively, is set out in the following tables.

*Restatement of consolidated statement of financial position at 31 December 2016*

| *(Euro thousands)* | **At 31 December** | | | | | |
|---|---|---|---|---|---|---|
| | **2016 Historical** | **IFRS 3** | **IAS 32** | **IAS 39** | **Other Reclass.** | **2016 Restated** |
| **Non-current assets** | | | | | | |
| *Intellectual property rights* | *14,503* | | | | | *14,503* |
| *Internally developed assets* | *6,814* | | | | | *6,841* |
| *Goodwill* | *0* | | | | *8,988* | *8,988* |
| *Other intangible assets* | *15,633* | *(169)* | | | *(8,988)* | *6,476* |
| Total intangible assets | 36,977 | (169) | | | | 36,808 |
| Property, plant and equipment | 19,412 | | | | | 19,412 |
| Investments in other companies | 2,000 | | | | | 2,000 |
| Deferred tax assets | 5,456 | | (3,493) | 31 | | 1,995 |
| Other non-current assets | 404 | | | | | 404 |
| **Total non-current assets** | **64,249** | **(169)** | **(3,493)** | **31** | **0** | **60,619** |
| **Current assets** | | | | | | |
| Inventories | 1,411 | | | | | 1,411 |
| Trade receivables | 19,092 | | | | | 19,092 |
| Foreign production tax credits | 0 | | 28,641 | | | 28,641 |
| Other tax assets | 11,728 | | (4,411) | | | 7,317 |
| Current financial assets | 4,648 | | | | | 4,648 |
| Other current assets | 1,005 | | | | | 1,005 |
| Cash and cash equivalents | 16,719 | | | | | 16,719 |
| **Total current assets** | **54,603** | **0** | **24,229** | **0** | **0** | **78,833** |
| **Total assets** | **118,852** | **(169)** | **20,737** | **31** | **0** | **139,452** |

*Restatement of consolidated statement of financial position at 31 December 2015*

| *(Euro thousands)* | At 31 December | | | | | |
|---|---|---|---|---|---|---|
| | **2015** | **IFRS 3** | | **IAS 32** | **Other reclass.** | **2015** |
| | **Historical** | Final PPA | Impact of different PPA | | | **Restated** |
| **Non-current assets** | | | | | | |
| Intellectual property rights | 4,203 | | | | | 4,203 |
| Internally developed assets | 7,247 | | | | | 7,247 |
| Goodwill | 0 | | | | 8,988 | 8,988 |
| Other intangible assets | 14,753 | 1,930 | (169) | | (8,988) | 7,526 |
| Total intangible assets | 26,203 | 1,930 | (169) | 0 | 0 | 27,964 |
| Property, plant and equipment | 20,033 | 0 | 0 | 0 | 0 | 20,033 |
| Investments in other companies | 3,100 | | | | | 3,100 |
| Deferred tax assets | 5,602 | | | (3,565) | | 2,037 |
| Other non-current assets | 409 | | | | | 409 |
| **Total non-current assets** | **55,348** | **1,930** | **(169)** | **(3,565)** | **0** | **53,544** |
| **Current assets** | | | | | | |
| Inventories | 992 | | | | | 992 |
| Trade receivables | 23,636 | | | | | 23,636 |
| Foreign production tax credits | | | | 22,916 | | 22,916 |
| Other tax assets | 12,239 | | | (2,641) | | 9,598 |
| Current financial assets | 3,934 | | | | | 3,934 |
| Other current assets | 1,308 | | | | | 1,308 |
| Cash and cash equivalents | 15,309 | | | | | 15,309 |
| **Total current assets** | **57,418** | **0** | **0** | **20,275** | **0** | **77,693** |
| **Total assets** | **112,765** | **1,930** | **(169)** | **16,710** | **0** | **131,236** |

| | | | | | | |
|---|---|---|---|---|---|---|
| ***Net cash used in investing activities (B)*** | **(15,235)** | **749** | **(14,486)** | **(24,051)** | **14,125** | **(9,926)** |
| | | | | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | | |
| Finance income/costs received/paid | 650 | (650) | 0 | (1,393) | 1,393 | 0 |
| Net foreign exchange gain/loss | 231 | (231) | 0 | 1,343 | (1,343) | 0 |
| Net change in capital and reserves | 260 | (260) | 0 | 4,299 | (4,299) | 0 |
| Net change in financial assets | (714) | 714 | 0 | 416 | -416 | 0 |
| Increase/decrease in financial liabilities | (830) | 830 | 0 | (2,152) | 2,152 | 0 |
| Repayment of loans and lease obligations | | (957) | (957) | | (3,313) | (3,313) |
| Change in other financial liabilities (including CFHs) | | 764 | 764 | | (34) | (34) |
| Increase in foreign production loans | | 4,189 | 4,189 | | 3,323 | 3,323 |
| ***Net cash (used in)/generated by financing activities (C)*** | **(403)** | **4,399** | **3,996** | **2,513** | **(2,536)** | **(23)** |
| ***Net increase/decrease in cash and cash equivalents (A) + (B) + (C)*** | **903** | **562** | **1,464** | **(9,088)** | **(41)** | **(9,128)** |
| Cash and cash equivalents at the beginning of the year | 15,307 | 1 | 15,309 | 24,395 | 0 | 24,395 |
| Effects of exchange rate changes on cash held in foreign currencies | | (54) | (54) | | 42 | 42 |
| **Cash and cash equivalents at the end of the year** | **16,210** | **509** | **16,719** | **15,307** | **1** | **15,309** |

The “reclassifications” columns show the impact on the historical statement of cash flows of the previously described adjustments to financial position and profit or loss as well as other reclassifications made to provide an improved and more consistent presentation of cash flows in the Restated consolidated financial statements.

With reference to the reclassifications and adjustments made and described above, note that the pre-existing control system was characterised, as far as the monitoring of certain consolidation entries was concerned, by a partially effective control function, with particular regard to the analysis of accounting standards applicable to new issues and the handling of more complex situations (such as those associated with foreign business combinations).

These critical factors gave rise to the existence of errors in the Group's historical consolidated figures, but these have since been addressed, given that various corrective actions were taken during the course of 2017. It should be noted, in fact, how the implementation of a centralised, automated consolidation system (Board Financial Consolidation), plus the implementation of SAP B1 for the Group companies (in particular, Bardel Entertainment was integrated into the Group's systems in October 2016 and Iven in December 2017, effective from an operational standpoint as of January 2018), have mitigated the risk of errors in the centralised preparation of consolidated financial data.

*Business combinations*

Acquisitions of subsidiaries are accounted for using the acquisition method. The acquisition price is determined by the sum of acquisition-date current values of the assets transferred, liabilities incurred or assumed and financial instruments issued by the Group for the change in control of the acquired entity. All other costs associated with a transaction are recognised in profit or loss when incurred.

Identifiable assets, liabilities and contingent liabilities of the entities acquired, which meet the conditions for recognition under IFRS 3, are measured at their acquisition-date fair values, except for items for which the standard requires recognition under other applicable accounting standards.

Goodwill arising from an acquisition consists of the excess value of the consideration transferred over the acquisition date fair value of the identifiable assets acquired and liabilities assumed, after having considered the amount of any non-controlling interest.

Goodwill is recognised as an asset and is subjected annually (or more frequently if determined events or changes in circumstances indicate the possibility that value has been impaired) to impairment testing.

Non-controlling interests in an acquired entity are initially measured at the proportionate share of the fair value of the recognised amounts of the acquiree's assets, liabilities and contingent liabilities.

Changes in ownership interests in subsidiaries that do not lead to an acquisition or loss of control are recognised as changes in equity.

Any contingent consideration is recognised at its acquisition-date fair value and forms an integral part of the total consideration. Contingent consideration is classified as a current or non-current liability based on its nature (except where the contingent consideration qualifies as an equity component). Subsequent changes in fair value are recognised in profit or loss, unless they arise from adjustments attributable to the measurement period for the acquisition accounting process.

As regards the acquisition of Iven Group in 2017, at the same time as the acquisition of the controlling interest in Iven Group, the Parent entered into a put and call agreement for the residual non-controlling interest. In the absence of IFRS standards and interpretations on this type of transaction, which is currently being debated by IFRIC and IASB, the Group has adopted the following accounting method: the value of the controlling interest reflects the attributable portion of the net assets acquired; the liability associated with the put option reflects the estimated fair value of the commitment at the exercise date as contractually agreed between the parties; the opposite entry to the recognition of the liability associated with the put option was a reduction of equity attributable to the Company; profit for the year and other comprehensive income earned by Iven Group subsequent to the acquisition have been proportionally attributed to non-controlling interests. Subsequent changes in the present value of the estimated liability from having discounted the notional charges and arising from the revision of the initial measurement of the estimated commitment, are recognised in profit or loss.

*Consolidation of foreign entities and translation of foreign currency financial statement components*

Assets and liabilities of consolidated foreign entities that are denominated in foreign currencies other than the Euro are translated at the rates of exchange prevailing at the reporting date (31 December); costs and income are translated using the average exchange rate for the relevant period.

Translation differences arising from the above process are recognised as an equity component.

The exchange rates used for the translation to Euro of the 2017, 2016 and 2015 financial statements of the foreign entities included in the scope of consolidation are the following:

VI. Revenue from the sale of products (toys) is recognised when the goods have been delivered and the Group has transferred to the buyer the significant risks and rewards of ownership of the goods.

VII. Revenue from the sale of publishing products is recognised upon the transfer of ownership. Revenue is stated net of returns, discounts, rebates and bonuses, as well as taxation directly related thereto.

VIII. Revenue from third party production service is recognised upon the achievement of contractual targets that are generally linked to the delivery of materials or the recognition of the stage of completion by the customer.

Income of a financial nature is recognised on an accrual basis; interest income is recognised based on the amount financed and the interest rate actually applied.
Costs relating to goods or services sold are recognised in profit or loss based on consumption in the year or via their systematic allocation or when it is not possible to establish the future use thereof.

*Grants*
Grants are recognised whenever there is reasonable certainty that they will be received and that all related conditions will be met. Grants towards cost components are recognised as other revenue and income, in accordance with IAS 20 - Accounting for government grants and disclosure of government assistance and are systematically allocated to the financial year, in order to match the costs they are intended to offset. Grants towards the cost of an asset are recognised in the statement of financial position as deferred income and in the statement of profit or loss on a straight line basis over the expected useful life of the asset.
The foregoing applies to grants awarded by the Ministry of Cultural Heritage and Activities and Tourism (MIBACT) to the Parent and its Italian production subsidiaries for television and film productions undertaken, in accordance with applicable laws, and that are recognised in profit or loss over the estimated useful lives of the related assets.
The Group, through the Canadian subsidiary Bardel, also has access to a series of local government incentives to support the audio visual and cinematographic industry and related productions, which are awarded by the Federal Government and the Provincial Government of British Columbia (Canadian Film and Video Production and British Columbia (BC) Production Services). These grants are calculated as a percentage of qualified labour expenditure incurred for the productions, but solely for those resident in Canada and in British Columbia, where Rainbow Group's animation studios are located. Also in this case, the incentives awarded are deemed to be grants and are recognised on a matching basis with the costs incurred.

*Foreign currency transactions*
Transactions in foreign currencies are recognised at the exchange rate prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at rates prevailing at the reporting date. Exchange differences generated by translation and those realised upon the settlement of a transaction are recognised as exchange gains and losses.

*Finance costs*
Finance costs are recognised as a cost in the year in which they are incurred, except where they are capitalised as indicated in the paragraph on property, plant and equipment in accordance with IAS 23 (Revised) – Borrowing costs. Finance costs include interest on bank overdrafts, costs relating to finance leases and finance costs relating to the staff leaving indemnity in accordance with IAS 19 – Employee benefits.

*Property, plant and equipment*

Property, plant and equipment is initially measured at its purchase or production cost, inclusive of any directly attributable cost of bringing an asset to working condition for its intended use. Property, plant and equipment is measured subsequent to initial recognition at cost less accumulated depreciation and accumulated impairment losses. Assets consisting of components with a significant carrying amount and with different useful lives are depreciated separately.

Costs incurred subsequent to acquisition are capitalised only when it is believed that it is probable that associated future economic benefits will be generated. All other costs are recognised in profit or loss when incurred.

Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised up to the limit of its recoverable amount and are capitalised as part of the cost of that asset. Borrowing costs eligible for capitalisation are those that would not have been incurred if expenditure had not been incurred on an asset that takes a substantial period of time to get ready for its intended use or sale.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method at the following rates:

| | |
|---|---|
| Buildings | 3% |
| Temporary constructions | 10% |
| General and specific plant | 9% - 20% - 25% |
| Equipment | 15% |
| Vehicles | 25% |
| Furniture and fittings | 15% |
| Electronic office equipment | 20% |

Land is not depreciated given that it has an indefinite useful life.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

*Assets held under lease arrangements*

Lease contracts are classified as finance leases where the terms of the contract are such as to transfer substantially all the risks and rewards incidental to ownership to the lessee. All other leases are considered to be operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the execution date of the contract, or, if lower, the present value of the minimum lease payments. Any costs incurred that are identifiable as directly attributable to the lease arrangements are added to the carrying amount of the asset.

The corresponding liability towards the lessor is included in the statement of financial position as a liability for lease obligations. Payments of lease instalments are split between their capital and interest elements in order to produce a constant periodic interest rate on the remaining balance of the liability. Finance costs are recognised in profit or loss.

Operating lease costs are recognised in profit or loss over the lease term.

*Impairment of tangible and intangible assets*

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated by management in order to determine the extent of the impairment loss (if any). When it is not possible

*Trade payables*
Trade payables are normally stated at nominal value, which approximates fair value. If there is any material difference between nominal value and fair value, trade payables are stated at the latter amount and are subsequently measured at amortised cost using the effective interest method.
Trade payables, which have due dates that fall within normal commercial terms, are not discounted to present value.

*Current borrowings*
Current borrowings include interest bearing bank loans and bank overdrafts and are recorded at the proceeds received net of transaction costs and are then subsequently measured at amortised cost using the effective interest method.

*Financial liabilities*
Financial liabilities are initially measured at cost, determined on the settlement date, corresponding to the fair value of the liability, net of transaction costs directly attributable to the issue of the financial liability in question. Financial liabilities are then subsequently measured at amortised cost using the effective interest method.
The Group's financial liabilities include foreign production loans granted by local leading banks to finance productions planned and commissioned by customers. These loans, which, in practice, are similar to operating debt, are secured by government tax credits awarded to the Group that have been granted to the banks as collateral for the loans. The loans are interest bearing and are repayable on demand.

*Equity instruments*
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recognised at the proceeds received net of direct issue costs.

*Derivative financial instruments*
The Group is not party to any speculative derivatives, but it enters into derivative financial instruments to manage its exposure to variability in cash flows generated by financial assets or liabilities that is attributable to changes in interest rates and/or exchange rates.
In accordance with IFRSs, derivative financial instruments may be recognised on a hedge accounting basis only if:

- at the inception of the hedge, the relationship is formally designated and documented;
- the hedge is expected to be highly effective;
- its effectiveness can be reliably measured and the hedge is assessed as being highly effective throughout the financial reporting periods for which it was designated.

However, where derivative financial instruments do not meet all of the conditions required by applicable accounting standards to qualify for hedge accounting, changes in fair value of the instruments are recognised in profit or loss as finance income/costs.
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The ineffective portion of changes in fair value are recognised in profit or loss.
If a hedging instrument or hedging relationship is terminated, but the hedged transaction has not yet been completed, any accumulated gains or losses, which until then had been recognised in other comprehensive income, are recognised when the transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

IAS 39) using supportable information, which is available without undue cost or effort that includes historical, current and prospective figures;

- o it introduces a new hedge accounting model (an increase in the types of transactions eligible for hedge accounting, a change in accounting for forwards and options included in a hedging relationship and replacement of the effectiveness test).

The new standard is effective for annual periods beginning on or after 1 January 2018.

Based on analysis performed, the Directors believe that the application of IFRS 9 will have an impact on disclosures presented in the consolidated financial statements, with particular reference to the new classification criteria and categories applicable to financial assets and liabilities and will also have an impact on the figures reported by the Group and on the procedures relating to the preparation of certain estimates. The Group will opt for the application of the modified retrospective method; at the date of transition, the Group did not hold any significant equity investments classified as available for sale measured at cost, although they did exist in prior years; consequently, no impact is expected in relation thereto (also due to the fact that, in accordance with the new IFRS 9, it is not permitted to hold an unlisted investment at cost). As regards the application of the expected loss model for the computation of credit losses, the directors, based on the analysis performed, have determined an estimated negative impact on opening equity at 1 January 2018 of approximately Euro 400 thousand (gross of the related tax effect) arising from the application of the new standard that requires the computation of an allowance for trade receivables, inclusive of those not overdue, based on expected losses, including future losses. In order to compute the amount of the expected loss based on the new standard, the directors have employed a procedure and a calculation matrix, which takes account of historical experience to arrive at forward-looking estimates. No impact is expected, however, on the measurement of derivatives held to hedge exchange rate risk and interest rate risk.

- **IFRS 16 – Leases** (published on 13 January 2016) which replaces IAS 17 – Leases, as well as the interpretations IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.
  The new standard provides a new definition of a lease and introduces a criterion based on control (right of use) over an asset in order to differentiate lease contracts from service contracts, identifying the following features: identification of the asset, the right to replacement thereof, the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the underlying asset.
  The standard sets out a single model for the recognition and measurement of lease contracts for a lessee that requires the recognition of assets held under leases, inclusive of operating leases, as balance sheet assets with an opposite entry to financial liabilities and it also makes it possible not to recognise as leases contracts for low-value assets and leases with a contractual duration equal to or less than 12 months. On the other hand, the standard does not include any significant amendments for lessors.
  The standard is applicable as from 1 January 2019, although early application is permitted, but only for companies that had already adopted IFRS 15 - Revenue from Contracts with Customers.

The Directors are assessing the potential effect of the introduction of these amendments on the Group's consolidated financial statements and a detailed analysis of the related contracts is ongoing.

meet the SPPI test even in the event that the reasonable additional compensation payable upon early repayment would constitute negative compensation for the lender. The amendments are applicable as from 1 January 2019, although early application is permitted. The Directors are currently assessing the potential effect of the introduction of these amendments on the Group's consolidated financial statements.

- Amendments to **IAS 19 Plan Amendment, Curtailment or Settlement** (published on 7 February 2018). The document clarifies how to determine pension costs when a change is made to a defined benefit plan. The amendments are applicable as from 1 January 2019. The Directors are currently assessing the potential effect of the introduction of these amendments on the Group's consolidated financial statements.

- **Annual Improvements to IFRSs: 2015-2017 Cycle**, published on 12 December 2017 (inclusive of IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – Remeasurement of previously held interests in a joint operation, IAS 12 Income taxes – Income tax consequences of payments on financial instruments classified as equity and IAS 23 Borrowing costs Disclosure of interests in other entities – Borrowing costs eligible for capitalisation), a collection of amendments to standards as part of the annual process of improvements thereto. The amendments are applicable as from 1 January 2019, although early application is permitted. The Directors are currently assessing the potential effect of the introduction of these amendments on the Group's consolidated financial statements.

### 3. *Scope of consolidation*

*Scope of consolidation at 31 December 2017*

| **Name** | **Location** | **Currency** | **Capital** (non-Euro amounts in thousands) | **Directly held** | **Indirectly held** | **Year acquired/ set up** |
|---|---|---|---|---|---|---|
| Rainbow S.r.l. | Loreto (Italy) | Euro | 3,950 | | | |
| Rainbow CGI S.r.l. | Rome (Italy) | Euro | 100 | 75 % | | 2006 |
| Tridimensional S.r.l. | Loreto (Italy) | Euro | 50 | 100 % | | 2007 |
| Witty Toys S.r.l. | Loreto (Italy) | Euro | 100 | 100 % | | 2008 |
| Rainbow Media Pte | Singapore | Singapore dollar | 1,000 | 70% | | 2009 |
| Rainbow Entertainment S.r.l. | Rome (Italy) | Euro | 100 | 90% | | 2007 |
| Rainbowland S.r.l. | Rome (Italy) | Euro | 100 | 100 % | | 2009 |
| Rainbow Academy S.r.l. | Rome (Italy) | Euro | 10 | | 75 % | 2010 |
| Rainbow Internazionale Ltd | Hong Kong | Hong Kong dollar | 1 | | 100 % | 2013 |
| Bardel Entertainment Inc. (*) | Vancouver (Canada) | Canadian dollar | 0 | 100 % | | 2015 |
| Iven S.p.A (**) | Milan (Italy) | Euro | 1,324 | 60 % | | 2017 |
| Colorado Film Production S.r.l. (**) | Milan (Italy) | Euro | 120 | | 60 % | 2017 |
| Moviement S.r.l. | Milan (Italy) | Euro | 52 | | 60 % | 2017 |
| San Isidro EM S.r.l. | Milan (Italy) | Euro | 10 | | 60 % | 2017 |

(*)Bardel Entertainment Inc. also controls various special purpose entities (SPEs), which were set up for projects awarded by customers, based on local tax legislation.

(**) Colorado Film Production S.r.l. holds a 49% equity interest in Gavila S.r.l., a company that has not yet commenced operations (capital Euro 40 thousand, located in Rome, carrying amount Euro 20 thousand).

In 2017 the scope of consolidation changed due to the acquisition of Iven Group in July 2017. Further details of this acquisition are provided in Note 52 below.

*Scope of consolidation at 31 December 2016 and 2015*

| Name | Location | Currency | Capital (non-Euro amounts in thousands) | Directly held | Indirectly held | Year acquired/ set up |
|---|---|---|---|---|---|---|
| Rainbow S.r.l. | Loreto (Italy) | Euro | 3,950 | | | |
| Rainbow CGI S.r.l. | Rome (Italy) | Euro | 100 | 75 % | | 2006 |
| Tridimensional S.r.l. | Loreto (Italy) | Euro | 50 | 100 % | | 2007 |
| Witty Toys S.r.l. | Loreto (Italy) | Euro | 100 | 100 % | | 2008 |
| Rainbow Media Pte | Singapore | Singapore dollar | 1,000 | 70% | | 2009 |
| Rainbow Entertainment S.r.l. | Rome (Italy) | Euro | 100 | 90% | | 2007 |
| Rainbowland S.r.l. | Rome (Italy) | Euro | 100 | 100 % | | 2009 |
| Rainbow Academy S.r.l. | Rome (Italy) | Euro | 10 | | 75 % | 2010 |
| Rainbow Internazionale Ltd | Hong Kong | Hong Kong dollar | 1 | | 100% | 2013 |
| Bardel Entertainment Inc. (*) | Vancouver (Canada) | Canadian dollar | 0 | 100% | | 2015 |

(*) please see the footnote to the previous table concerning the scope of consolidation at 31 December 2017. Furthermore, it should be noted that Bardel was acquired in 2015.

There was no change in the scope of consolidation in 2016 with respect to 2015, both in terms of companies consolidated and in terms of percentages held. The was no change in the subsidiaries' capital in the two years.
As stated above, Bardel Entertainment Inc heads up the entire Bardel Group, which consists entirely of special purpose entities set up for individual projects awarded by customers.

### *4. Judgements and accounting estimates*

The preparation of financial statements and related notes in accordance with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date. The actual results may differ from these estimates. Estimates are used in relation to the useful life of property, plant and equipment and intangible assets and related depreciation and amortisation methods (except for assets with indefinite useful lives), to the recognition of the Group's intellectual property and to the measurement of receivables, contingent liabilities and other items as detailed below. The assumptions are reviewed on an ongoing basis and the impact of any revision is recognised immediately in profit or loss. Key judgements and the areas most impacted by the use of estimates by Management are as follows:

- Goodwill
  Goodwill is tested for impairment annually and, if necessary, also during the course of the year. The allocation of goodwill to the CGUs or groups of CGUs and the determination of their recoverable amount requires the use of estimates that depend on subjective judgements and factors that may change over time, with a consequent impact, which may even be significant, on judgements made by the Directors.
  These judgements have been made at the level of the cash-generating unit to which goodwill has been allocated, assuming the recoverable amount to be the higher of fair value, if available or determinable, and value in use sourced from business plans approved by the Board of Directors.

through the use of derivatives (forward contracts). All of these foreign exchange hedging instruments have been entered into by the Canadian subsidiary Bardel Entertainment Inc. and are intended to hedge the volatility of the USD – CAD exchange rate with respect to specific contracts for which credit collection is in USD.
The instruments existing at 31 December 2017 are as follows:

| *(Euro thousands)* | **Hedged transaction** | **Original notional** | **Fair value at 31 December 2017** |
|---|---|---|---|
| **Hedged risk** | | **USD** | |
| Exchange rate fluctuation | USD / CAD | 10,622 | 45 |

The instruments existing at 31 December 2016 are as follows:

| *(Euro thousands)* | **Hedged transaction** | **Original notional** | **Fair value at 31 December 2016** |
|---|---|---|---|
| **Hedged risk** | | **USD** | |
| Exchange rate fluctuation | USD / CAD | 5,296 | (119) |

The Group was not party to any foreign exchange hedging instruments at 31 December 2015. The table below sets out the Group's net exposure to foreign currency assets and liabilities at 31 December 2017, 2016 and 2015:

| | **Amount at 31 Dec 17** | **Amount at 31 Dec 16** | **Amount at 31 Dec 15** |
|---|---|---|---|
| **Foreign currency assets** | | | |
| Canadian dollar | 33,454 | 31,570 | 23,123 |
| US dollar | 8,726 | 8,249 | 11,904 |
| Other currencies | 225 | 48 | 703 |
| **Total foreign currency assets** | **42,405** | **39,867** | **35,730** |
| | | | |
| **Foreign currency liabilities** | | | |
| Canadian dollar | (31,221) | (30,281) | (17,032) |
| US dollar | (718) | (1,773) | (1,181) |
| Other currencies | (550) | (319) | (925) |
| **Total foreign currency liabilities** | **(32,490)** | **(32,373)** | **(19,138)** |

Set out below is a sensitivity analysis showing the pre-tax impact on equity at 31 December 2017, 2016 and 2015 and on the results for the years then ended, arising from an increase/decrease in exchange rates of 4.5% with respect to the actual exchange rates at 31 December 2017, 2016 and 2015.

| *(Euro thousands)* | **Analysis at 31 December 2017** | |
|---|---|---|
| **Currency** | **4.50%** | **(4.50%)** |
| US dollar | (31) | 33 |
| Canadian dollar | 65 | (69) |
| Other currencies | 1 | (1) |
| **Total** | **35** | **(36)** |

These loans are secured by the proceeds received by the subsidiary Bardel Entertainment from the related tax credits granted by the Canadian provincial and federal authorities (Note 29).
The foreign production loans at 31 December 2016 of Euro 20,737 thousand (Euro 16,710 thousand at 31 December 2015) were liable to interest at a rate equating to the Canadian prime rate plus a spread of 0.5; on account of their average short term to maturity, as well as the hedging offered by the tax credits securing the loans, the impact of fluctuations in interest rates is not considered by the Group to be significant.
On account of the situation concerning financial markets, as well as the Group's ability to generate significant cash flows from operating activities, it has not been deemed necessary to hedge the existing financial liabilities, except for the loan granted by Unicredit of an original amount of Euro 15,000 thousand, in relation to which, Rainbow has entered into the following interest rate swap agreement with the same bank:

| *(Euro thousands)* | **Hedged transaction** | **Original notional** | **Fair value at 31 December 2017** |
|---|---|---|---|
| **Hedged risk** | | | |
| Interest rate fluctuation | Floating rate loan 3 month Euribor + Spread of 0.95 | 15,000 | (75) |

Trends in financial markets and in related reference rates are constantly monitored and, if any increased risk were to arise with a potentially significant impact on the aforementioned loan arrangements, the Group would resort to the use of further hedging instruments.
Sensitivity analysis performed has shown that, in the event of an unfavourable change of 100 basis points in interest rates applicable to financial liabilities at 31 December 2017 that are exposed to floating interest rates, the impact on pre-tax profit would be Euro 242 thousand.

### Liquidity risk

The ability to generate significant cash flows from operating activities permits the Group to finance its continuing operations with equity, with an infrequent use of third party sources of financing. An effective pre-sale strategy for intellectual property across the distribution channels, together with continuous revisions of guaranteed minimums requested from licensees, have made it possible to limit the Group's financial exposure.
As a consequence, liquidity risk is not of great concern to Rainbow Group, which, however, has agreed lines of credit that are readily usable and for amounts that significantly exceed the needs that have arisen to date.
As at 31 December 2017, the Group had current banking facilities of Euro 37,750 thousand, of which Euro 17,250 thousand had been used at that date. Liquid funds were deemed to be sufficient for the Group to punctually and economically meet its contractual commitments by the agreed due dates.
Medium-long term non-current financial liabilities at 31 December 2017 amounted to Euro 20,845 thousand and related mainly to the non-current portion of the loan with an original amount of Euro 15,000 thousand granted by Unicredit to Rainbow in 2017 (Euro 11,208 thousand) to finance the acquisition of Iven Group, to the non-current portion of two medium term bank loans (Euro 641 thousand) granted to Rainbow and, lastly, Rainbow's non-current UBI Leasing finance lease obligations (Euro 8,558 thousand) and finance lease obligations pertaining to the subsidiaries

| *(Euro thousands)* | **within three months** | **between three and twelve months** | **beyond twelve months** | **Total** | **Restated balance at 31.12.2015** |
|---|---|---|---|---|---|
| Non-current financial liabilities | 0 | 0 | 12,121 | 12,121 | 11,067 |
| Trade payables | 3,850 | 0 | 0 | 3,850 | 3,850 |
| Current financial liabilities | 279 | 1,075 | 0 | 1,354 | 1,151 |
| Foreign production loans | 1,320 | 15,986 | 0 | 17,306 | 16,710 |
| Current borrowings | 1 | 0 | 0 | 1 | 1 |
| | | | | | |
| **Total** | **5,450** | **17,061** | **12,121** | **34,632** | **32,779** |

### Financial instruments by category

As required by IFRS 7, paragraph 8, the Group's financial instruments have been identified by asset and liability category with respect to their classification in the statement of financial position.
A comparison is provided below between the carrying amount and the fair value by category of Rainbow Group's financial instruments as recognised in the financial statements:

| | **31 December 2017** | | **31 December 2016** | | **31 December 2015** | |
|---|---|---|---|---|---|---|
| **Fair value** | | | **Restated** | | **Restated** | |
| *(Euro thousands)* | **Fair value** | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** | **Carrying amount** |
| | | | | | | |
| **FINANCIAL ASSETS** | | | | | | |
| **MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS** | | | | | | |
| Current financial assets | 4,768 | 4,768 | 4,648 | 4,648 | 3,934 | 3,934 |
| | | | | | | |
| **LOANS AND RECEIVABLES** | | | | | | |
| Trade receivables | 28,041 | 28,041 | 19,092 | 19,092 | 23,636 | 23,636 |
| | | | | | | |
| **OTHER ASSETS** | | | | | | |
| Cash and cash equivalents | 11,953 | 11,953 | 16,719 | 16,719 | 15,309 | 15,309 |
| | | | | | | |
| **AVAILABLE-FOR-SALE FINANCIAL ASSETS** | | | | | | |
| Investments in other companies | n.a. | 20 | n.a. | 2,000 | n.a. | 3,100 |
| | | | | | | |
| **TOTAL FINANCIAL ASSETS** | **44,763** | **44,783** | **40,459** | **42,459** | **42,879** | **45,979** |
| | | | | | | |
| **FINANCIAL LIABILITIES** | | | | | | |
| **MEASURED AT AMORTISED COST** | | | | | | |
| Non-current financial liabilities | 20,845 | 20,845 | 10,093 | 10,093 | 11,067 | 11,067 |
| Trade payables | 9,633 | 9,633 | 6,834 | 6,834 | 3,850 | 3,850 |
| Current financial liabilities | 7,230 | 7,230 | 1,412 | 1,412 | 1,151 | 1,151 |
| Foreign production loans | 17,949 | 17,949 | 20,737 | 20,737 | 16,710 | 16,710 |
| Current borrowings | 4,220 | 4,220 | 509 | 509 | 1 | 1 |
| **TOTAL** | **59,876** | **59,876** | **39,585** | **39,585** | **32,779** | **32,779** |

| | | | |
|---|---|---|---|
| Financial assets at fair value through profit or loss | 1,026 | 309 | |
| Financial liabilities at fair value through profit or loss | | | (11,962) |
| **Total** | **1,026** | **309** | **(11,962)** |
| | | | |
| Financial liabilities at fair value through other comprehensive income | | (179) | |
| **Total** | **0** | **(179)** | **0** |

No transfers were made between levels in 2017, 2016 and 2015.

### 6. Segment information

During the course of 2017, the Group continued with the optimisation and revision of its overall structure, resulting in the determination of a new organisational structure, the reorganisation of product lines and a review of its internal reporting system.
As a consequence of the above reorganisation, a new Service Business Unit (BU) was set up and which had previously been included in the Products BU; the revision of the Group structure was triggered by the acquisition in 2015 of Bardel Group and by the acquisition in 2017 of Iven Group that gave rise to an increase in the significance of and the results from services offered to non-Group customers.
The Group currently operates through three business units, as described below:

i) Licensing Business Unit, which creates content, develops intellectual property via the production of animated series and feature films and handles subsequent marketing across various distribution channels on diverse platforms, such as TV, cinema and VOD, and via merchandising through the granting of licenses for the exploitation of intellectual property rights, as well as via the organisation of live events. The Licensing Business Unit, which focuses on the exploitation of intellectual property, represents the Group's historical business and is conducted, in addition to the Parent, by the subsidiaries Rainbow CGI S.r.l., Rainbow Media PTE Ltd, Rainbowland S.r.l., Rainbow Entertainment S.r.l., Rainbow Internazionale Ltd and by Iven (acquired in July 2017) and its subsidiaries Colorado Film Production S.r.l., San Isidoro EM S.r.l. and Gavila S.r.l. The Licensing Business Unit consists of two business lines: Content Distribution, which is involved in the marketing of entertainment products and Merchandising, which is focused on the exploitation of the Group's intellectual property rights.

ii) Products Business Unit, which handles the production and marketing of products inspired by Rainbow Group's intellectual property, which is managed internally. The Products Business Unit consists of two business lines: Publishing Products and Toys. Publishing products are created and marketed by the subsidiary Tridimensional, solely in Italy, through the newsstands channel. The Toys business line encompasses the production of fashion dolls (and, to a lesser extent, playsets) via the subsidiary Rainbow Internazionale Ltd and the marketing thereof through the Italian subsidiary Witty Toys S.r.l.

iii) Service Business Unit, which is mainly concerned with animated productions on a subcontract basis through the subsidiary Bardel, as well as artistic and talent management within the cinema, television and theatre industry, with advertising through Moviement S.r.l. (subsidiary of Iven) and with the operations of the professional academy of 3D animation and special effects through the subsidiary Rainbow Academy S.r.l. The Service Business Unit consists of three different business lines: Animation Service, Talent Agency and School.

The above business units were established by Rainbow Group based on the most recent reporting used by management to make its strategic decisions and reflect the Group's current organisational

With reference to 2016, other revenue and income went from Euro 7,294 thousand in 2015 to Euro 17,737 thousand in 2016, being an increase of Euro 10,443 thousand, due to growth in government and regional grants of Euro 10,390 thousand (>100%) that went from Euro 5,370 thousand in 2015 to Euro 15,760 thousand in 2016. The increase was mainly due to the acquisition of the subsidiary Bardel and the fact that results for 2016 reflect 12 months of grants awarded by the Federal and Provincial Canadian Government as opposed to 3 months in 2015.

### *9. Change in inventories*

The table below provides details of change in inventories for the years ended 31 December 2017, 2016 and 2015.

| | Year ended 31 December | | |
|---|---|---|---|
| *(Euro thousands)* | **2017** | **2016** | **2015 Restated** |
| Finished products and goods | 856 | 564 | 82 |
| Work in progress and semi-finished products | 322 | 50 | 35 |
| Allocation to inventory allowance | - | (205) | (141) |
| **Change in inventories** | **1,178** | **409** | **(24)** |

This line item represents the impact on profit or loss of the change in inventories of toys and publishing products held by companies operating in the Products Business Unit, namely Tridimensional S.r.l. and Rainbow Internazionale Ltd.

Change in inventories went from a positive amount of Euro 409 thousand in the year ended 31 December 2016 to a positive amount of Euro 1,178 thousand in the year ended 31 December 2017, being an increase of Euro 769 thousand (>100%). The positive change is mainly due to an increase in publishing products inventory reported by the subsidiary Tridimensional in 2017, driven by a change in procurement policy aimed at achieving benefits of economies of scale through an increase in purchase volumes and that had already been implemented in 2016.
With reference to 2016, change in inventories went from a negative amount of Euro 24 thousand in the year ended 31 December 2015 to a positive amount of Euro 409 thousand in the year ended 31 December 2016, being an increase of Euro 433 thousand (>100%). The change is mainly attributable to an increase in publishing products inventory reported by the subsidiary Tridimensional, driven by a change in procurement policy aimed at achieving benefits of economies of scale through an increase in purchase volumes.
Further details of the inventory allowance are provided in Note 27, to which reference should be made.

### *10. Raw materials, consumables and goods*

The table below provides details of purchases of raw materials, consumables and goods for the years ended 31 December 2017, 2016 and 2015.

| | Year ended 31 December | | |
|---|---|---|---|
| *(Euro thousands)* | **2017** | **2016** | **2015 Restated** |
| Purchases of gadgets and materials for resale | 6,826 | 5,584 | 5,453 |
| Purchases of consumables and other materials | 1,029 | 867 | 693 |
| **Raw materials, consumables and goods** | **7,855** | **6,451** | **6,146** |

We would also point out that, in the year ended 31 December 2017, a transfer was made to intangible assets of Euro 1,526 thousand (Euro 609 thousand in 2016) consisting of cost of services relating to the creation of the Group's intellectual property.
A comparison of the 2016 cost components with those for 2015 reveals an increase in advertising and promotions costs that was more than offset by a decrease in professional consulting costs and a decrease in magazine printing and production costs. The decrease in magazine printing and production costs arose from improved management of print volumes by the Group's publishing company, Tridimensional; the increase in advertising and promotions costs was due to increased promotional activity conducted by the Group to support the launch in 2016 of the first series of Regal Academy and Maggie & Bianca Fashion Friends, the intellectual property of which is owned by the Group.

As also disclosed in Note 52, services include costs incurred for acquisitions completed in the three year period (Euro 112 thousand in 2017 for the acquisition of Iven Group and Euro 264 thousand in 2015 for the acquisition of Bardel).

### *12. Personnel*

Total personnel costs amounted to Euro 32,410 thousand in the year ended 31 December 2017, compared to Euro 29,619 thousand in 2016 and Euro 11,062 thousand in 2015. Details of the costs are as follows:

| | **Year ended 31 December** | | |
|---|---|---|---|
| *(Euro thousands)* | **2017** | **2016** | **2015 Restated** |
| Wages and salaries | 30,842 | 28,216 | 9,717 |
| Social contributions | 1,062 | 984 | 977 |
| Staff leaving indemnity | 352 | 277 | 239 |
| Other personnel costs | 153 | 142 | 129 |
| **Personnel** | **32,410** | **29,619** | **11,062** |

Personnel costs went from Euro 29,619 thousand in the year ended 31 December 2016 to Euro 32,410 thousand in 2017, being an increase of Euro 2,791 thousand (+9.4%), which was mainly due to the impact of the acquisition of Iven of Euro 838 thousand and to an increase in Bardel Entertainment's personnel costs of Euro 1,891 thousand, driven by revenue growth achieved by the Canadian subsidiary.
The increase in personnel costs from Euro 11,062 thousand in 2015 to Euro 29,619 thousand in 2016 was mainly attributable to the acquisition of the Canadian subsidiary Bardel Entertainment Inc. and the fact that the consolidated results for 2016 reflected 12 months of costs as opposed to 3 months in 2015.
We would also point out that, in the year ended 31 December 2017, a transfer was made to intangible assets of Euro 3,705 thousand (Euro 1,258 thousand in 2016; Euro 1,078 thousand in 2015) of costs relating to employees involved in the development of the Group's intellectual property.
The table below provides details of average and actual employee numbers by category for 2017, 2016 and 2015.

| | Year ended 31 December | | |
|---|---|---|---|
| *(Euro thousands)* | **2017** | **2016** | **2015** |
| | | | **Restated** |
| Allocation to allowance for doubtful debts | 1,250 | 775 | 791 |
| Allocation to provisions for risks and charges | 616 | 400 | 2,230 |
| **Provisions & write-downs** | **1,866** | **1,175** | **3,021** |

Provisions and write-downs went from Euro 1,175 thousand in the year ended 31 December 2016 to Euro 1,866 thousand in the year ended 31 December 2017, being an increase of Euro 691 thousand (+58.8%).

Allocation to provisions recognised in 2017 are mainly attributable to allocations to the allowance for doubtful debts of Euro 1,250 thousand, calculated based on the risk of default of the counterparties, determined by taking account of the information available on the solvency of Rainbow Group's customers and on historical data.

The allocation to provisions for risks and charges recognised in 2017 amounted to Euro 616 thousand and includes a prudent provision of Euro 521 thousand recognised in relation to current tax assets, while awaiting the outcome of an IRES (Italian corporate income tax) refund claim relating to the 2010-2011 tax years, and other allocations of Euro 95 thousand for contingent liabilities of a legal nature.

Provisions and write-downs went from Euro 3,021 thousand in the year ended 31 December 2015 to Euro 1,175 thousand in the year ended 31 December 2016, being an increase of Euro 1,846 thousand.
The allocations to provisions recognised in 2015 consisted of allocations to the allowance for doubtful debt of Euro 791 thousand and allocations of Euro 2,230 thousand for contingent liabilities associated with tax disputes (resolved in 2016) and legal disputes.

### *15. Other operating costs*

Other operating costs amounted to Euro 6,317 thousand in 2017, versus Euro 6,207 thousand in 2016 and Euro 4,841 thousand in 2015. Details thereof are provided in the following table:

| *(Euro thousands)* | **2017** | **2016** | **2015** |
|---|---|---|---|
| | | | **Restated** |
| Travel and subsistence allowances | 1,360 | 1,213 | 958 |
| Rights, concessions and other similar rights | 308 | 417 | 660 |
| Lease expense | 1,330 | 1,435 | 644 |
| Trademarks | 293 | 376 | 173 |
| Office supplies and printed stationery | 44 | 47 | 42 |
| Out of period expense | 1,002 | 680 | 742 |
| Hospitality and entertainment | 185 | 130 | 142 |
| Donations and gifts | 43 | 52 | 19 |
| Banking service charges | 294 | 182 | 142 |
| Losses on receivables | 49 | 11 | 7 |
| Sundry operating costs | 1,407 | 1,664 | 1,311 |
| **Other operating costs** | **6,317** | **6,207** | **4,841** |

### *20. Income tax expense*

Set out below are details of income tax expense for the years ended 31 December 2017, 2016 and 2015.

| *(Euro thousands)* | **2017** | **2016** | **2015 Restated** |
|---|---|---|---|
| Current tax | 3,731 | 4,813 | 2,371 |
| Deferred tax | (538) | (385) | 1,089 |
| **Income tax expense** | **3,193** | **4,429** | **3,460** |

Income tax expense went from Euro 4,429 thousand in the year ended 31 December 2016 to Euro 3,193 thousand in the year ended 31 December 2017, being a decrease of Euro 1,236 thousand (-27.9%), mainly due to a decrease in the year in profit before tax.
The current tax expense for 2017 includes an amount of Euro 149 thousand of prior year taxation in excess of the amount reported in the tax return (Euro 234 thousand) and allocations to provisions for tax disputes (Euro 383 thousand relating to the subsidiary Tridimensional, attributable to the tax inspection report as disclosed in Note 37, to which reference should be made).
Income tax expense went from Euro 3,460 thousand in the year ended 31 December 2015 to Euro 4,429 thousand in the year ended 31 December 2016, being a decrease of Euro 969 thousand (-28.0%).
The current tax expense for 2015 relates to income tax of Euro 1,849 thousand, local tax of Euro 499 thousand and statistical studies for the estimation of taxes due by firms in specific industries of Euro 23 thousand.
The current tax expense for 2016, as previously stated, relates to income tax of Euro 4,272 thousand, local tax of Euro 532 thousand and statistical studies for the estimation of taxes due by firms in specific industries of Euro 9 thousand.

*Reconciliation of actual tax charge to theoretical tax charge*
A reconciliation of the Group's theoretical tax expense and theoretical tax rate applicable to profit before tax, using the prevailing tax rate, to the actual tax expense and actual tax rate is set out below:

| ***Year ended 31/12/2017*** | **Taxable** | **IRES** | **IRAP** | **Other** | **Total** | **% of IRES to profit before tax** |
|---|---|---|---|---|---|---|
| Current | | 3,081 | 502 | 149 | 3,731 | |
| Deferred | | (435) | (103) | | (538) | |
| **Total** | | **2,645** | **399** | **149** | **3,193** | **42.9%** |
| Profit before tax | 6,171 | | | | | |
| Theoretical tax charge | | 1,481 | | | | 24.0% |
| Effect of non-deductible costs | 9,216 | 2,239 | | | | 36.3% |
| Non-taxable income | (4,114) | (987) | | | | (16.0%) |
| Tax losses not recognised | (509) | (123) | | | | (2.0%) |
| Effect of different tax rates related to subsidiaries operating in other jurisdictions | | 35 | | | | 0.6% |
| **Actual tax charge** | | **2,645** | | | | **42.9%** |

| *(Euro thousands)* | **Intellectual property rights** | **Assets under development** | **Goodwill** | **Other intangible assets** | **Total** |
|---|---|---|---|---|---|
| **Balance at 1 January 2015** | **3,174** | **6,179** | **0** | **306** | **9,659** |
| Additions | 414 | 9,084 | | 113 | **9,612** |
| Reclassifications | 7,921 | (8,017) | | 95 | **0** |
| Amortisation | (5,307) | | | (313) | **(5,620)** |
| Change in scope of consolidation | | | 8,988 | 7,324 | **16,312** |
| Exchange differences, writedowns and other changes | (2,000) | | | | **(2,000)** |
| **Total changes** | **1,029** | **1,068** | **8,988** | **7,220** | **18,304** |
| **Balance at 31 December 2015 (restated)** | **4,203** | **7,247** | **8,988** | **7,526** | **27,964** |
| Additions | 1,397 | 12,220 | | 267 | **13,884** |
| Reclassifications | 12,626 | (12,626) | | | **0** |
| Amortisation | (3,723) | | | (1,206) | **(4,929)** |
| Change in scope of consolidation | | | | | **0** |
| Exchange differences, writedowns and other changes | | | | (111) | **(111)** |
| **Total changes** | **10,300** | **(405)** | **0** | **(1,050)** | **8,845** |
| **Balance at 31 December 2016 (restated)** | **14,503** | **6,841** | **8,988** | **6,476** | **36,808** |
| Additions | 1,592 | 12,006 | | 76 | **13,673** |
| Reclassifications | 16,383 | (16,383) | | | **0** |
| Amortisation | (11,758) | | | (1,299) | **(13,056)** |
| Change in scope of consolidation | 1,852 | 4,560 | 7,630 | 4,649 | **18,691** |
| Exchange differences, writedowns and other changes | | (31) | | (14) | **(45)** |
| **Total changes** | **8,070** | **151** | **7,630** | **3,411** | **19,263** |
| **Balance at 31 December 2017** | **22,573** | **6,993** | **16,618** | **9,888** | **56,071** |

*Intellectual property in use or under development*

This mainly comprises expenditure by Rainbow Group on the making of new productions, inclusive of sequels or spin-offs of existing content, as well as those inspired by new intellectual property. Completed productions are classified as intellectual property rights, whereas assets under development consist of the capitalisation of costs incurred in the making of television series not yet completed at the reporting date. Moreover, as from 2015 onwards, the Group's intangible assets include goodwill arising from acquisitions completed in the period.

The change in scope of consolidation in 2017 is entirely attributable to the acquisition of Iven Group in July 2017. As explained in greater detail in Note 52 on business combinations, the acquisition has given rise to the recognition of goodwill of Euro 7,630 thousand and the recognition of other intangible assets of Euro 11,061 thousand at 31 December 2017. The latter amount includes the amount allocated to the Colorado brand subsequent to the acquisition of Euro 4,649 thousand.

The increase in intellectual property rights in the year ended 31 December 2017 is mainly attributable to expenditure on the second series of Regal Academy and the third series of Maggie & Bianca Fashion Friends, as well as by the subsidiary Colorado Film Production on the film entitled “La ragazza nella nebbia/The girl in the fog”. Assets under development at 31 December 2017 mainly relate to the new series of 44 Gatti/44 Cats and the film entitled “Puoi baciare lo sposo/You can kiss the groom”.

The increase in intellectual property rights in the year ended 31 December 2016 is mainly attributable to expenditure on the first series of Regal Academy, on the first series of Maggie & Bianca Fashion Friends and on the first series of World of Winx. Assets under development at

- temporary differences arising from differences between the accounting and tax treatment of costs from which future economic benefits are expected;
- consolidation entries, particularly the elimination of intercompany profit on capitalised intellectual property;
- impairment of doubtful receivables;
- allocations to provisions for estimated costs and other minor differences.

The Group also had tax loss carryforwards of Euro 1,276 thousand at 31 December 2017 on which no deferred tax assets had been recognised as they did not meet the relevant recognition criteria.

Deferred tax assets at 31 December 2015 reflect the impact of the decrease in the IRES tax rate from 27.5% to 24% (approved by the 2016 Finance Act).

### *26. Other non-current assets*

Other non-current assets amounted to Euro 354 thousand at 31 December 2017, Euro 404 thousand at 31 December 2016 and Euro 409 thousand at 31 December 2015.
These consist of the following.

| | At 31 December | | |
|---|---|---|---|
| *(Euro thousands)* | **2017** | **2016 Restated** | **2015 Restated** |
| Cautionary deposits | 174 | 238 | 257 |
| Other non-current third party receivables | 180 | 166 | 153 |
| **Other non-current assets** | **354** | **404** | **409** |

### *27. Inventories*

Inventories amounted to Euro 2,600 thousand at 31 December 2017 (Euro 1,411 thousand at 31 December 2016; Euro 992 thousand at 31 December 2015) and consist of inventories held by subcontractors of Tridimensional S.r.l. and Rainbow Internazionale Ltd.

| *(Euro thousands)* | **2017** | **2016 Restated** | **2015 Restated** |
|---|---|---|---|
| Work in progress and semi-finished products | 636 | 273 | 223 |
| Finished products | 1,964 | 1,139 | 769 |
| **Inventories** | **2,600** | **1,411** | **992** |

The increase in inventories in 2017 and 2016 was attributable to an increase in finished products, as the consequence of a change in gadget procurement policy aimed at production efficiency improvements in the Publishing business line.

Inventories are stated net of an inventory allowance deemed to be adequate for the prudent measurement of finished products. Details are provided below of changes in the inventory allowance:

Uses of the allowance for doubtful debts in 2017 amounted to Euro 1,177 thousand and related mainly to the derecognition of receivables by the Parent, deemed no longer collectible based on specific analysis performed with input from its legal advisors.
As disclosed in Note 5 on credit risk, the Group undertakes a specific analysis of doubtful accounts; in light of the analysis performed, only trade receivables recognised at 31 December 2017, 2016 and 2015 and overdue by more than 360 days were deemed to be at risk of impairment, which has been addressed by the allowance for doubtful debts.

There were no significant changes in the allowance in 2016 as the result of amounts that were in line with 2015 figures with respect to the allocation to allowance and the use of the allowance by the Group to write off certain balances that had been previously provided against and which were deemed to be no longer recoverable. These balances had been analysed by Management and, having sought legal advice, had been derecognised due to the impossibility of recovery therof.

### *29. Foreign production tax credits*

Foreign production tax credits amounted to Euro 26,045 thousand at 31 December 2017 (Euro 28,641 thousand at 31 December 2016; Euro 22,916 thousand at 31 December 2015).
Further information on the nature of these tax credits is provided in Note 1.2.

The trend in this balance is closely linked to the increase in Bardel Entertainment Inc's production projects, which give rise to a consequent increase or decrease in tax credits.

### *30. Other tax assets*

Other tax assets amounted to Euro 10,787 thousand at 31 December 2017 (Euro 7,317 thousand at 31 December 2016; Euro 9,598 thousand at 31 December 2015).

| | **At 31 December** | | |
|---|---|---|---|
| *(Euro thousands)* | **2017** | **2016** | **2015** |
| | | **Restated** | **Restated** |
| Withholding tax credits | 849 | 792 | 617 |
| Withholding tax on intellectual property rights | 479 | 470 | 642 |
| Tax credit | 2,117 | 1,783 | 1,492 |
| Tax receivable from tax authorities | 3,448 | 462 | 3,501 |
| VAT receivable | 3,284 | 3,284 | 2,884 |
| Sundry tax assets | 611 | 526 | 463 |
| **Other tax assets** | **10,787** | **7,317** | **9,598** |

The increase in other tax receivables in 2017 was mainly attributable to the Iven acquisition.
The decrease in other tax receivables in 2016 was mainly attributable to a decrease in tax receivable from tax authorities arising from a decrease in payments on account made in 2016 and to the use of previously recognised tax credits.

- In 2015, a portion of the consideration relating to the acquisition of Bardel Entertainment Inc. was settled via the issue of capital with a share premium reserved for the Ward Family Trust, the previous owner of the Canadian subsidiary, totalling Euro 3,605 thousand;
- In 2017, the Group entered into leasing arrangements for plant and other assets worth Euro 685 thousand.
-

### *35. Equity*

The Group's equity components are detailed as follows:

| | At 31 December | | |
|---|---|---|---|
| *(Euro thousands)* | **2017** | **2016 Restated** | **2015 Restated** |
| Share capital | 3,950 | 3,950 | 3,950 |
| Legal reserve | 790 | 790 | 780 |
| Share premium reserve | 3,555 | 3,555 | |
| Translation reserve | (217) | 124 | (68) |
| Defined benefit plans remeasurement reserve | (481) | (469) | (410) |
| Other reserves | 41,308 | 45,542 | 40,458 |
| Profit (loss) for the year | 2,137 | 9,302 | 5,051 |
| **Total equity** | **51,042** | **62,793** | **53,315** |
| Capital and reserves attributable to non-controlling interests | 2,350 | (786) | (849) |
| Profit (loss) for the year attributable to non-controlling interests | 841 | (23) | 66 |
| **Total equity attributable to non-controlling interests** | **3,191** | **(809)** | **(783)** |
| **Total equity** | **54,233** | **61,984** | **52,532** |

The Parent's capital at 31 December 2017 amounted to Euro 3,950 thousand and was fully subscribed and paid in.
On 16 October 2015, the Company underwent a capital increase of a nominal amount of Euro 50 thousand reserved for the Ward Family Trust, the previous owner of Bardel Entertainment Inc., with a share premium of Euro 3,555 thousand that was duly recognised in the share premium reserve. Further information on the impact of the acquisition of Bardel and on the settlement of the purchase price is disclosed in Note 52 below on “Business combinations”.
As indicated in the table, the Group's reserves at 31 December 2017 included a legal reserve, being that of the Parent, of Euro 790 thousand; of a share premium reserve of Euro 3,555 thousand; and of a negative defined benefit plans remeasurement reserve of Euro 481 thousand. The other reserves, which amounted to Euro 41,308 thousand at 31 December 2017, included the Parent's IFRS transition reserve, the Group's retained earnings and the cash flow hedging reserve.

It should be noted that capital and reserves attributable to non-controlling interests include, through other comprehensive income, the portions attributable to non-controlling interests of the translation reserve and the defined benefit plans remeasurement reserve.
Details of changes in equity are provided in the statement of changes in equity.

| | At 31 December | | |
|---|---|---|---|
| *(Euro thousands)* | **2017** | **2016 Restated** | **2015 Restated** |
| Customer list - acquisition of Bardel Entertainment | 1,496 | 1,689 | 1,882 |
| Brands - acquisition of Iven S.p.A. | 1,232 | 0 | 0 |
| Impact of extraordinary operations | 179 | 392 | 410 |
| Other | 1,167 | 159 | 435 |
| **Deferred tax liabilities** | **4,074** | **2,240** | **2,727** |

The increase in deferred tax liabilities in 2017 is mainly due to the impact of the accounting treatment of the acquisition of Iven Group, which was completed in the year and which gave rise to the recognition of deferred tax liabilities on the acquired brand (Euro 1,232 thousand, net of use of the provision in the year). Further information on the impact of the acquisition of this group is disclosed in Note 52.

The decrease in deferred tax liabilities in 2016 was due to the release of the portion attributable to the year of the deferred tax liability recognised on the allocation of amounts to the assets arising from the acquisition of Bardel Entertainment Inc. Further information on the allocation of the purchase price paid for the acquisition of the subsidiary is disclosed in Note 52.

Deferred tax liabilities at 31 December 2015 reflect the impact of the decrease in the IRES tax rate from 27.5% to 24% (approved by the 2016 Finance Act).

### *39. Employee benefit obligation*

The employee benefit obligation at 31 December 2017 amounted to Euro 2,506 thousand, with respect to Euro 1,771 thousand at 31 December 2016 and Euro 1,580 thousand at 31 December 2015.
This balance primarily consists of the staff leaving indemnity recognised by the Italian subsidiaries.
The amounts recognised in profit and loss are summarised below:

| | At 31 December | | |
|---|---|---|---|
| *(Euro thousands)* | **2017** | **2016 Restated** | **2015 Restated** |
| Current service cost | (339) | (266) | (231) |
| Net interest | (25) | 22 | 17 |
| Actuarial differences | (3) | (59) | 57 |
| **Total** | **(368)** | **(303)** | **(157)** |

The Group's employee benefit obligation consists of the following:

| | At 31 December | | |
|---|---|---|---|
| *(Euro thousands)* | **2017** | **2016 Restated** | **2015 Restated** |
| Fair value of obligation | 2,406 | 1,622 | 1,401 |
| Directors' severance indemnity | 100 | 149 | 179 |
| **Total** | **2,506** | **1,771** | **1,580** |

Changes in the fair value of the Group's defined benefit obligation are as follows:

The increase in 2017 was mainly attributable to the acquisition of Iven and to deferred income pertaining to the Canadian subsidiary Bardel Entertainment, as a consequence of different contractual billing arrangements agreed with new customers acquired in 2017.
The decrease in the balance in 2016 was a consequence of the Group's normal license agreements management. The agreements provide for the granting of long-term licenses and establish, based on the timing of contract execution, the amount of deferred income and current advances.

### *43. Trade payables*

Trade payables consist of the following:

| | At 31 December | | |
|---|---|---|---|
| *(Euro thousands)* | **2017** | **2016 Restated** | **2015 Restated** |
| Italy | 6,837 | 4,511 | 2,886 |
| Outside Italy | 2,796 | 2,323 | 965 |
| **Trade payables** | **9,633** | **6,834** | **3,850** |

The increase in 2017 was mainly attributable to the acquisition of Iven, whereas the increase in 2016 was attributable to specific balances recognised at 31 December 2016 pertaining to normal business operations.
There were no payables due beyond one year at 31 December 2017, 2016 and 2015.

### *44. Current tax liabilities*

Current tax liabilities amounted to Euro 3,527 thousand at 31 December 2017, versus Euro 2,831 thousand at 31 December 2016 and Euro 2,589 thousand at 31 December 2015. The balance consists of the following:

| | At 31 December | | |
|---|---|---|---|
| *(Euro thousands)* | **2017** | **2016 Restated** | **2015 Restated** |
| VAT payable | 2 | | |
| Payroll tax liabilities | 420 | 250 | 250 |
| Foreign withholding tax | 0 | 0 | 63 |
| Income tax payable | 3,100 | 2,568 | 2,258 |
| Other tax liabilities | 4 | 13 | 18 |
| **Current tax liabilities** | **3,527** | **2,831** | **2,589** |

The increase in 2017 of Euro 696 thousand was mainly attributable to an increase in income tax payable of Euro 532 thousand.

### *45. Current provisions*

This balance amounted to Euro 641 thousand at 31 December 2017, versus Euro 895 thousand at 31 December 2016 and Euro 1,465 thousand at 31 December 2015.
The entire amount recognised at the 2017 year end relates to the provision set up by Tridimensional S.r.l. for possible product returns subsequent to the date of preparation of these consolidated financial statements.

The decrease in sundry current liabilities in 2017 was mainly attributable to the payment of the residual amount due for the acquisition of the Canadian company, Bardel, as detailed in Note 52 below.
The decrease in this liability in 2016 of Euro 3,516 thousand was mainly attributable to the payment in January 2016 of the third tranche of the deferred consideration due for the acquisition of the subsidiary Bardel Entertainment Inc.

### *49. Reconciliation of liabilities arising from financing activities*

The table below provides details of changes in financial liabilities, with separate disclosure of those that have impacted cash flow and are thus presented in the statement of cash flows as cash flows from financing activities, as opposed to other changes of a non-cash nature.

| *Euro thousands* | **01/01/2017** | ***Net cash flows*** | ***Non-cash transactions*** | | | **31/12/2017** |
|---|---|---|---|---|---|---|
| | | | **Iven acquisition** *(Note 52)* | **New leases** *(Note 34)* | **Other** | |
| Financial liabilities (current and non-current) | **11,505** | 15,867 | | 685 | 18 | **28,075** |
| Current borrowings | **509** | 2,570 | 1,116 | | 25 | **4,220** |
| Current foreign production loans | **20,737** | (2,719) | | | (69) | **17,949** |
| | **32,751** | **15,717** | **1,116** | **685** | **(26)** | **50,243** |

The amounts shown in the column headed “Net cash flows” are reported in the statement of cash flows, split, where applicable, between cash inflows and cash outflows.
The columns related to non-cash transactions show the impact of the acquisition of Iven Group in 2017 as detailed in Note 52, the amounts of assets under finance leases entered into in 2017 and other minor changes that include the impact of the fair value measurement of interest hedging derivatives.

### *50. Phantom Stock Option plan*

On 31 March 2011, the Board of Directors of the Parent approved regulations governing the Phantom Stock Option Plan reserved for managers, employees, collaborators, consultants and directors of Rainbow S.r.l.
The Group envisages the use of phantom stock option plans that grant beneficiaries the right to receive from the Parent the payment of a gross amount equating to the eventual positive difference between an initial predetermined price and the final price corresponding to the consideration for the sale of all or part of the equity interests currently held by the owners of Rainbow S.r.l.
Specifically the plan envisaged the allotment, no later than 31 December 2014, to one or more recipients of a total maximum number of 2,340,000 option rights, each of which granted the right to receive, on the relevant exercise date, payment of an amount equating to the positive difference between an initial price equating to the value of a quota equating to 0.0000128205128205128% of the Group's capital of Euro 2.5946239 and the final value equating to the value of a quota equating to 0.0000128205128205128% of the Group's capital calculated based on the price that quotaholders would receive, or would have the right to receive, from the sale of an equity interest equal to or greater than 10% of the Parent's capital.
The identification of the recipients and the establishment of the allotment terms and procedures, as well as the determination of the number allotted to each recipients was delegated to the Board of Directors of the Parent, which empowered the Chairman to perform the associated tasks.

| 2015 Restated<br>*(Euro thousands)* | Receivables | Payables | Costs | Revenue |
|---|---|---|---|---|
| **Legal entities** | | | | |
| Alfa Park S.R.L. | 2,450 | | | 1,111 |
| Viacom International Average Networks | 2,400 | 381 | 982 | 4,777 |
| Vimn Netherlands | 27 | | 58 | (8) |
| Mtv Network International | 59 | | | 1,707 |
| Mtv Networks Europe | | | | 7 |
| Mtv Pubblicità S.r.l. | | | | |
| Nickelodeon Asia Holdings Pte Ltd | | | | |
| Nickelodeon International Ltd | | | | |
| Rainbow Estate S.r.l. | | | | |
| Rainbow Magic Land S.r.l. A S.U. | 95 | 4 | 5 | 5 |
| Vimn Germany | | | 37 | |
| Ward Family Trust | | 11,962 | | |
| Moretticons S.a.s. di Cavillis S.r.l & C | | 58 | 233 | |
| Alonzo Committeri & Partners | | 8 | 30 | |
| | | | | |
| **Individuals** | | | | |
| Iginio Straffi* | | 1,007 | 1,321 | |
| Michele Moretti | | 5 | 20 | |
| Lee Soon Poh | | 5 | 406 | |
| Marco Pacetti | | 5 | 20 | |
| Naryana Kumar | | | 89 | |
| Francesco Mastrofini | | 2 | 116 | |
| Mario Anniballi | | 6 | 18 | |
| **Total** | **5,031** | **13,443** | **3,335** | **7,599** |

*The amount includes capitalised costs of Euro 300 thousand.

### 52. Business combinations

*Financial year 2017*

During the year, the Parent acquired 60% of Iven Group and completed the payment of the consideration relating to the acquisition of the Canadian subsidiary Bardel, which was acquired in 2015. The impact of both transactions is detailed below.

*a) Acquisition of Iven Group*

The Parent acquired 60% of Iven Group in July 2017. Iven is the holding company of a group that operates in the entertainment industry and which comprises the following companies:

(i) Colorado Film Production S.r.l., a leading Italian film and television production company, with more than 30 years of industry experience;

(ii) Moviement S.r.l., a company specialised in artistic and talent management within the cinema, television, theatre and advertising industry;

(iii) San Isidro EM S.r.l., a music rights management company;

(iv) Gavila S.r.l., a 49% held Newco, which will also operate as a film and television production company.

| *(Euro thousands)* | **July 2017** |
|---|---|
| **Assets** | |
| **Non-current assets** | |
| Intangible assets | 6,412 |
| Brands | 4,649 |
| Property, plant and equipment | 35 |
| Other equity interests | 20 |
| Deferred tax assets | 30 |
| **Total non-current assets** | **11,146** |
| **Current assets** | |
| Trade receivables | 5,131 |
| Current tax assets | 1,729 |
| Other current assets | 276 |
| Cash and cash equivalents | 2,437 |
| **Total current assets** | **9,573** |
| **Total assets** | **20,719** |
| | |
| **Non-current liabilities** | |
| Non-current financial liabilities | 0 |
| Provisions for risks | 751 |
| Staff leaving indemnity | 445 |
| Non-current liabilities | 1,977 |
| Deferred tax liabilities | 1,297 |
| **Total non-current liabilities** | **4,471** |
| **Current liabilities** | |
| Deferred income and current advances | 4,856 |
| Trade payables | 731 |
| Current tax liabilities | 483 |
| Financial liabilities | 1,116 |
| Other current liabilities | 1,245 |
| **Total current liabilities** | **8,432** |
| **Total current and non-current liabilities** | **12,902** |
| | |
| **Fair value of net assets acquired** | **7,817** |
| Of which: | |
| Attributable to owners of the parent company (60%) | 4,690 |
| Attributable to non-controlling interests (40%) | 3,127 |

The acquisition-related costs, which have been recognised in profit or loss, amounted to Euro 264 thousand.
For the purpose of the preparation of the historical 2015 consolidated financial statements, the Bardel acquisition was determined on a provisional basis.
Set out below are details of the provisional fair value of the assets acquired and liabilities assumed at 1 October 2015.

| *(Euro thousands)* | **1 Oct 15** |
|---|---|
| **Assets** | |
| **Non-current assets** | |
| Intangible assets | 570 |
| Property, plant and equipment | 2,523 |
| Deferred tax assets | 202 |
| **Total non-current assets** | **3,295** |
| **Current assets** | |
| Trade receivables | 1,585 |
| Current tax assets | 19,919 |
| Other current assets | 262 |
| Cash and cash equivalents | 985 |
| **Total current assets** | **22,751** |
| **Total assets** | **26,046** |
| | |
| **Non-current liabilities** | |
| Deferred tax liabilities | 10 |
| **Total non-current liabilities** | **10** |
| **Current liabilities** | |
| Deferred income and current advances | 4,907 |
| Trade payables | 521 |
| Current tax liabilities | 676 |
| Current financial liabilities | 1,325 |
| Current foreign production loans | 13,838 |
| Other current liabilities | 1,266 |
| **Total current liabilities** | **22,533** |
| **Total current and non-current liabilities** | **22,543** |
| | |
| **Provisional fair value of net assets acquired** | **3,503** |

These Restated consolidated financial statements for the three years 2017-2015 include the value of Bardel's net assets acquired based on the final amounts determined in 2016. The table below sets out a summary of the impact of the recognition of the final amounts pertaining to the Bardel acquisition versus the provisional amounts.

| *(Euro thousands)* | **Provisional recognition** | **Adjustment** | **Final recognition** |
|---|---|---|---|
| Purchase price | 17,316 | | 17.316 |
| Allocated to: | | | |
| Fair value of net assets acquired (provisional initial recognition) | 3.503 | | 3.503 |
| Customer list | 0 | 6.755 | 6.755 |
| Deferred taxation recognised on customer list | 0 | (1.930) | (1.930) |
| Total | 3.503 | 4.825 | 8.328 |
| | | | |
| Goodwill arising from the acquisition | 13.813 | (4.825) | 8.988 |

disputes at 31 December 2017 represents the best current estimate of the probable liability, supported by opinions received from the Group's legal advisors.
There are no undisclosed contingent liabilities.

### *54. Remuneration payable to members of the Board of Directors and Board of Statutory Auditors – Fees payable to the independent auditors*

Remuneration payable to members of the Board of Directors and Board of Statutory Auditors

Remuneration payable to members of the Parent's Board of Directors and Board of Statutory Auditors, comprising that payable for the performance of these functions in other entities included in the scope of consolidation, at 31 December 2017, 2016 and 2015 is detailed in the table below.

| *(Euro thousands)* | **2017** | **2016** | **2015** |
|---|---|---|---|
| **Board of Directors** | | | |
| Remuneration | 609 | 600 | 583 |
| | | | |
| **Board of Statutory Auditors** | | | |
| Remuneration | 70 | 53 | 53 |
| | | | |
| **Total** | **679** | **653** | **636** |

On 31 March 2011, the Board of Directors of the Parent approved regulations governing the Phantom Stock Option Plan reserved for managers, employees, collaborators, consultants and directors of Rainbow S.r.l.
The regulations envisage the use of phantom stock option plans that grant beneficiaries the right to receive from the Parent the payment of a gross amount equating to the eventual positive difference between an initial predetermined price and the final price corresponding to the consideration for the sale of all or part of the equity interests currently held by the owners of Rainbow S.r.l.

Independent audit fees

The following table summarises the fees payable to the independent auditors, Deloitte & Touche S.p.A., for audit services and for non-audit services rendered thereby or by entities pertaining to its network for the years ended 31 December 2017 and 2016; similarly, the table details the fees payable to the independent auditors, Ernst & Young S.p.A., for audit services and for non-audit services rendered thereby or by entities pertaining to its network for the year ended 31 December 2015.

| | | Year ended 31 December | | |
|---|---|---|---|---|
| *(Euro thousands)* | | **2017** | **2016** | **2015** |
| Independent audit | Deloitte & Touche S.p.A. | 87 | 66 | |
| | Deloitte & Touche network | 28 | 28 | |
| | Reconta Ernst & Young S.p.A. | | | 80 |
| | Ernst & Young network | | | 46 |
| Other services | Deloitte & Touche S.p.A. | | | |
| | Deloitte & Touche network | | | |
| | Reconta Ernst & Young S.p.A. | | | |
| | Ernst & Young network | | | |
| **Total** | | **115** | **94** | **126** |

### *55. Subsequent events*

No significant events have occurred subsequent to 31 December 2017 that would have impacted the consolidated financial statements or would have required additional disclosures**.**

Loreto, 19 February 2018

On behalf of the Board of Directors
IGINIO STRAFFI