



Interim Management Report at 31 March 2016

Cairo Communication S.p.A.
Head office: Via Tucidide 56, Milan
Share capital Euro 4,073,856.80



Governance

Board of Directors

Urbano Cairo*	Chairman
Uberto Fornara	CEO
Laura Maria Cairo	Director
Roberto Cairo	Director
Marco Janni	Director
Antonio Magnocavallo	Director
Stefania Petruccioli	Director
Marco Pompignoli	Director
Roberto Rezzonico	Director
Mauro Sala	Director

Control and Risk Committee

Roberto Rezzonico	Director
Mauro Sala	Director
Antonio Magnocavallo	Director

Remuneration Committee

Antonio Magnocavallo	Director
Roberto Rezzonico	Director
Stefania Petruccioli	Director

Related Party Committee

Marco Janni	Director
Mauro Sala	Director
Stefania Petruccioli	Director

Board of Statutory Auditors

Marco Moroni	Chairman
Marco Giuliani	Standing auditor
Maria Pia Maspes	Standing auditor
Emilio Fano	Alternate auditor
Enrico Tamborini	Alternate auditor

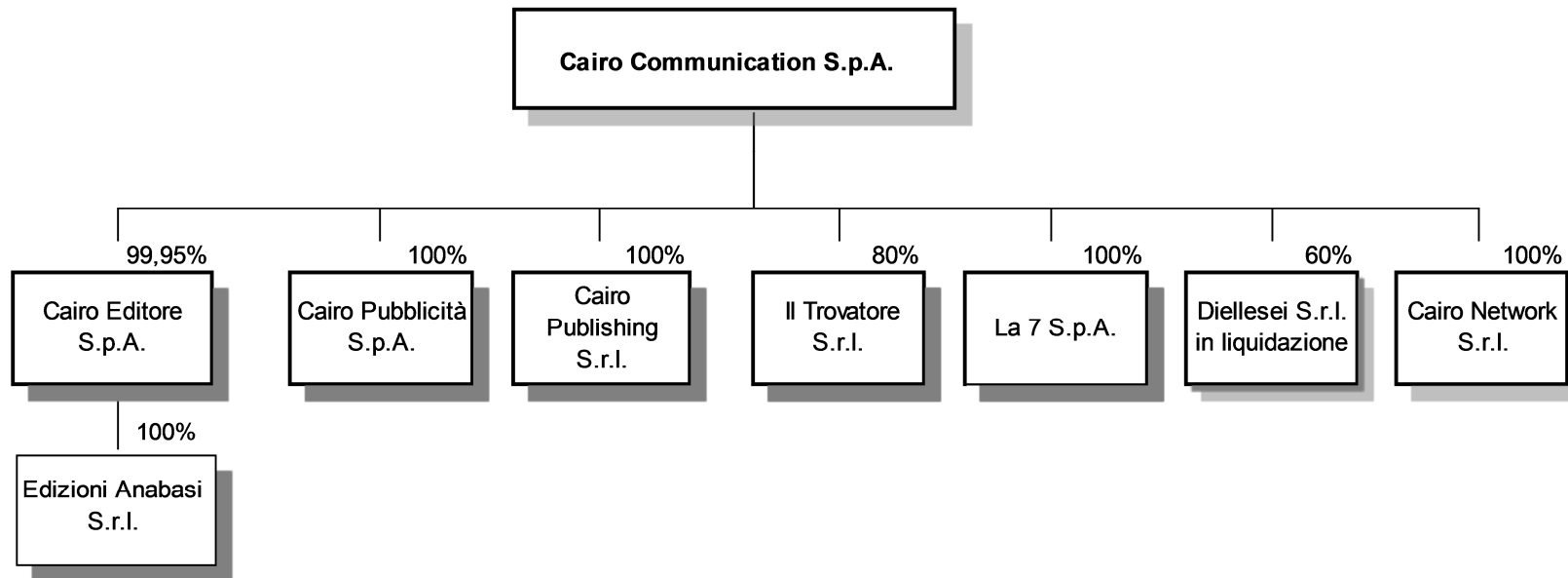
Audit Firm

KPMG S.p.A.

* Ordinary and extraordinary executive powers exercised with single signatory, as limited by the Board of Directors



The Group at 31 March 2016





1. Valuation principles and criteria adopted in preparing the Interim Management

The financial statements in this Interim Management Report have been prepared following the reclassified statements usually adopted for the “Directors’ Report” and in accordance with international accounting standards.

The Interim Management Report at 31 March 31 2016 has been prepared in accordance with the requirements of Borsa Italiana Notice no. 7587 of 21 April 2016 "STAR Issuers: clarifications on interim management reports/STAR. Issuers': information on interim management statements"

The consolidated and separate income statement figures in 1Q16 are shown versus 1Q15. Statement of financial position and net equity figures appearing in the financial statements are compared with the figures of the consolidated and separate financial statements at 31 December 2015.

The quarterly financial statements at 31 March 2016, as for those at 31 December 2015, have been prepared net of tax and tax effects.

In 2016, there were no changes to the scope of consolidation from the consolidated financial statements for the year ended 31 December 2015.

In this Interim Management Report, in order to provide a clearer picture of the financial performance of the Cairo Communication Group, besides of the conventional financial indicators required by IFRS, a number of **alternative performance indicators** are shown that should, however, not be considered substitutes of those adopted by IFRS.

The alternative indicators are:

- **EBITDA:** used by Cairo Communication as a target to monitor internal management, and in public presentations (to financial analysts and investors). It serves as a unit of measurement to evaluate Group and Parent operational performance, with the EBIT, and is calculated as follows:

Profit from continuing operations, pre tax

+/- Net finance income

+/- Share in associates

EBIT - Operating profit

+ Amortization & depreciation

+ Bad debt impairment losses

+ Provisions for risks



EBITDA – Operating profit, before amortization, depreciation, write-downs and impairment losses

The Cairo Communication Group also considers the **net financial position** as a valid indicator of the Group's ability to meet financial obligations, both current and future. As can be seen in the table used in this Interim Management Report, which details the equity figures used for the calculation of Group net financial position, this figure includes cash and other cash equivalents, bank deposits, securities and other current financial assets, reduced by current and non-current bank borrowings.

2. Group performance

In 1Q16, the Cairo Communication Group continued to operate as a:

- publisher of magazines and books (Cairo Editore/Editoriale Giorgio Mondadori and Cairo Publishing);
- TV (La7, La7d) and Internet (La7.it, TG.La7.it) publisher;
- multimedia advertising broker (Cairo Pubblicità) for the sale of advertising space on TV, in print media, on the Internet and in stadiums;
- network operator (Cairo Network), for the activities of which, in 2016, work continued on the implementation of the mux.

In 1Q16, the general economic and financial climate continued to be marked by uncertainty. To date, there remains uncertainty over the period required for a return to normal market conditions.

In the first two months of the year, the advertising market - after reporting a positive trend in 2H15 versus 2H14 (+3.4%, *AC Nielsen*) - showed positive signs, growing by 3.7%, driven by the performance of the TV advertising market (+6.3%), while magazine advertising market dropped by 4.6%.

Economic uncertainty in the short-medium term also hit magazine sales figures.

In 1Q16, despite such economic context in general and specifically of its relevant markets (advertising and publishing), the Cairo Communication Group:

- increased its results versus 1Q15 - +33.2% and +56.5% gross operating profit (EBITDA) and operating profit (EBIT) - thanks also to the trend of advertising sales on La7 and La7d channels and on Group publications;
- continued its growth strategy by launching “Nuovo e Nuovo TV Cucina”, the fortnightly magazine sold as an option with the two weeklies “Nuovo” and “Nuovo TV”, which posted average sales of approximately 99 thousand copies in the first 11 issues, and by planning the



launch, which took place on 20 April 2016, of “Enigmistica Più”, a weekly packed with games and other diversions that marks the landing of Cairo Editore in the interesting world of puzzle games; with its first issue, at the launch price of 50 cents, it sold approximately 250 thousand copies;

- achieved highly positive results in the magazine publishing segment, with gross operating profit (EBITDA) and operating profit (EBIT) of Euro 2.9 million and Euro 2.6 million, confirming the high circulation levels of the publications, and worked on improving the levels of efficiency reached in containing costs (production, publishing and distribution);
- continued to work on strengthening the results of the rationalization and cost-curbing measures achieved in the TV publishing segment (La7) in 2013-2015, posting also in 1Q16 a positive gross operating profit of approximately Euro 31 thousand.

In 1Q16, consolidated gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 3.5 million and Euro 1.2 million, up by 33.2% and 56.5% versus 1Q15 (Euro 2.6 million and Euro 0.7 million). Profit attributable to the owners of the parent came to approximately Euro 1.7 million (Euro 1.9 million in 1Q15).

Looking at the business segments, in 1Q16:

- in the **magazine publishing segment**, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 2.9 million and Euro 2.6 million (Euro 3.2 million and Euro 3 million in 1Q15). Total costs of approximately Euro 0.1 million were incurred for the launch of “Nuovo e Nuovo TV Cucina”. The period under review confirmed the excellent circulation results (Euro 17.7 million versus Euro 17.7 million in 1Q15).
- in the **TV publishing segment (La7)**, the Group continued to work on strengthening the results of the rationalization and cost-curbing measures achieved in the 2013-2015 three-year period, and succeeded in posting also in 1Q16 a positive gross operating profit (EBITDA) of approximately Euro 31 thousand. Operating profit (EBIT) came to approximately Euro -2 million and benefited in the consolidated financial statements from lower amortization and depreciation of Euro 1.9 million, due to the write-down of tangible and intangible assets made in 2013 in the purchase price allocation of the investment in La7. In 1Q15, gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro -1.4 million and Euro -2.7 million. Operating profit (EBIT) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 3.5 million.



- in the **advertising segment**, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 0.6 million and Euro 0.5 million (Euro 0.8 million and Euro 0.5 million in 1Q15). In 1Q16, gross advertising sales on La7 and La7d channels amounted to Euro 36.6 million, up by approximately 4% versus 1Q15 (Euro 35.2 million). Advertising sales on Group publications also reported a highly positive trend, reaching Euro 5.1 million, up by 16% (+6% on a like-for-like basis of titles and number of issues) versus 1Q15 (Euro 4.4 million);
- in the **network operator segment**, the Group company Cairo Network continued implementing the mux, the TV broadcasting system based on digital terrestrial technology; at full performance, the mux will cover at least 94% of the national population, providing high-quality service levels.

Regarding weeklies, with approximately 1.7 million average copies sold in the January-February two-month period of 2016, the Group retains its position as the leading publisher in copies of weeklies sold at newsstands, with an approximately 30% market share. Including the average sales of titles yet to be surveyed by ADS (“NuovoTV”, “Nuovo e Nuovo TV Cucina”) and the copies of the first issue of “Enigmistica Più”, average copies sold reach approximately 2.2 million.

In 1Q16, La7’s average all-day share was 2.79% and 3.34% in prime time (from 8:30 PM to 11:30 PM), with a high-quality target audience. La7d’s share was 0.56% (0.59% in prime time). The audience figures of the channel’s news and discussion programmes - such as the 8 PM newscast (5.1% from Monday to Friday), “Otto e mezzo” (5%), “Piazza Pulita” (3.1%), “Crozza nel Paese delle Meraviglie” (7.1%), “Coffee Break” (3.7%), “Omnibus” (3.4%), “La Gabbia” (2.9%), “L’aria che tira” (4.7%), “Bersaglio Mobile” (3.3%), “Di martedì” (5.2%) and the new “Eccezionale Veramente” (3.3%) - were positive. In April 2016, La7’s share rose to 3.08%.

Cairo Communication Group – Consolidated figures

The main **consolidated income statement figures** in 1Q16 can be compared as follows with those of 1Q15:



(€ thousands)	31/03/2016 (Quarter)	31/03/2015 (Quarter)
Gross operating revenue	62,149	60,155
Advertising agency discounts	(5,831)	(5,714)
Net operating revenue	56,318	54,441
Change in inventory	(33)	4
Other revenue and income	1,513	3,993
Total revenue	57,798	58,438
Production cost	(38,127)	(41,519)
Personnel expense	(16,191)	(14,307)
Gross operating profit (EBITDA)	3,480	2,612
Amortization, depreciation, provisions and impairment losses	(2,308)	(1,863)
EBIT	1,172	749
Net financial income	152	161
Income (loss) on investments	-	-
Pre-tax profit	1,324	910
Income tax	349	1,019
Non-controlling interests	(4)	(2)
Profit from continuing operations attributable to the owners of the parent	1,669	1,927
Profit/ (loss) from discontinued operations attributable to the owners of the parent	-	-
Profit attributable to the owners of the parent	1,669	1,927

In 1Q16, consolidated gross revenue amounted to approximately Euro 63.7 million (comprising gross operating revenue of Euro 62.1 million and other revenue and income of Euro 1.6 million), basically in line with the figures in 1Q15 (Euro 64.1 million, comprising gross operating revenue of Euro 60.1 million and other revenue and income of Euro 4 million). Consolidated gross operating profit (EBITDA) and operating profit (EBIT), amounting to approximately Euro 3.5 million and Euro 1.2 million, increased by 33.2% and 56.5% versus 1Q15 (Euro 2.6 million and Euro 0.7 million). Consolidated profit was approximately Euro 1.7 million (Euro 1.9 million in 1Q15).

As mentioned earlier, in 1Q16 operating profit (EBIT) in the TV publishing segment (La7) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 1.9 million, due to the write-down of tangible and intangible assets made in 2013 in the purchase price allocation of the investment in La7. For the same reason, in 1Q15, operating profit (EBIT) in the TV publishing segment (La7) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 3.5 million.



The Group **statement of comprehensive income** can be analyzed as follows:

(€ thousands)	31/03/2016 (Quarter)	31/03/2015 (Quarter)
Consolidated statement of comprehensive income		
Profit attributable to the owners of the parent	1,669	1,927
<i>Other non-reclassifiable items of the comprehensive income statement</i>		
Actuarial profit (loss) from defined benefit plans	(33)	-
Tax effect	13	-
Total comprehensive income for the period	1,649	1,927

The Group's performance can be read better by analyzing the 1Q16 results by **main business segment** (magazine publishing, advertising, TV publishing (La7), network operator (Cairo Network) and Il Trovatore) versus those of 1Q15:

31/03/2016	Magazine Publishing	Adver tising	TV publishing La7	Trovatore	Network operator (Cairo Network)	Intra- group and unallocated	Total
(€ thousands)							
Gross operating revenue	22,177	40,922	26,870	231	218	(28,269)	62,149
Advertising agency discounts	-	(5,831)	-	-	-	-	(5,831)
Net operating revenue	22,177	35,091	26,870	231	218	(28,269)	56,318
Change in inventory	(33)	-	-	-	-	-	(33)
Other income	590	106	783	1	33	-	1,513
Total revenue	22,734	35,197	27,653	232	251	(28,269)	57,798
Production cost	(14,975)	(32,620)	(18,351)	(187)	(263)	28,269	(38,127)
Personnel expense	(4,897)	(1,973)	(9,271)	(13)	(37)	-	(16,191)
Gross operating profit (EBITDA)	2,862	604	31	32	(49)	-	3,480
Amortization, depreciation, provisions and impairment losses	(243)	(62)	(2,003)	-	-	-	(2,308)
EBIT	2,619	542	(1,972)	32	(49)	-	1,172
Income (loss) on investments	-	-	-	-	-	-	-
Net financial income	(4)	11	146	(1)	-	-	152
Pre-tax profit	2,615	553	(1,826)	31	(49)	-	1,324
Income tax	(926)	(216)	1,489	(11)	13	-	349
Non-controlling interests	-	-	-	(4)	-	-	(4)
Profit from continuing operations attributable to the owners of the parent	1,689	337	(337)	16	(36)	-	1,669
Profit / (loss) from discontinued operations	-	-	-	-	-	-	-
Profit for the period	1,689	337	(337)	16	(36)	-	1,669



31/03/2015	Magazine Publishing	Adver tising	TV publishing La7	Trovatore	Network operator (Cairo Network)	Intra- group and unallocated	Total
(€ thousands)							
Gross operating revenue	21,674	39,939	25,617	232	-	(27,307)	60,155
Advertising agency discounts	-	(5,714)	-	-	-	-	(5,714)
Net operating revenue	21,674	34,225	25,617	232	-	(27,307)	54,441
Change in inventory	4	-	-	-	-	-	4
Other income	515	125	3,353	-	-	-	3,993
Total revenue	22,193	34,350	28,970	232	-	(27,307)	58,438
Production cost	(14,398)	(31,775)	(22,463)	(190)	-	27,307	(41,519)
Personnel expense	(4,585)	(1,753)	(7,948)	(21)	-	-	(14,307)
Gross operating profit (EBITDA)	3,210	822	(1,441)	21	-	-	2,612
Amortization, depreciation, provisions and impairment losses	(216)	(363)	(1,284)	-	-	-	(1,863)
EBIT	2,994	459	(2,725)	21	-	-	749
Income (loss) on investments	-	-	-	-	-	-	-
Net financial income	(25)	(6)	192	-	-	-	161
Pre-tax profit	2,969	453	(2,533)	21	-	-	910
Income tax	(990)	(189)	2,206	(8)	-	-	1,019
Non-controlling interests	-	-	-	(2)	-	-	(2)
Profit from continuing operations attributable to the owners of the parent	1,979	264	(327)	11	-	-	1,927
Profit / (loss) from discontinued operations	-	-	-	-	-	-	-
Profit for the period	1,979	264	(327)	11	-	-	1,927

3. Consolidated statement of financial position

The main figures of the consolidated **statement of financial position** at 31 March 2016 can be analyzed versus the situation at 31 December 2015:

(€ thousands)	31/03/2016	31/12/2015
<u>Statement of financial position</u>		
Property, plant and equipment	3,032	3,080
Intangible assets	61,443	60,917
Financial assets	1,022	1,702
Deferred tax assets	3,944	4,186
Net current assets	(19,253)	(17,438)
Total assets	50,188	52,447
Non-current borrowings and provisions	40,871	41,973
(Net financial position)/Net debt	(108,586)	(105,776)
Equity attributable to the owners of the parent	117,845	116,196
Equity attributable to non-controlling interests	58	54
Total equity and liabilities	50,188	52,447

At their Meeting on 27 April 2016, the shareholders approved the distribution of a dividend of 0.20 Euro per share, inclusive of tax, with coupon detachment date on 9 May 2016. At 31 March 2016, this amount, equal to Euro 15.7 million, was still included in the equity reserves.



In 2016, as part of the share buy-back plans, no treasury shares were sold or purchased. At 31 March 2016, Cairo Communication held a total of n. 779 treasury shares, or 0.001% of the share capital, subject to art. 2357-ter of the Italian Civil Code.

The Cairo Communication Group:

- is not exposed to liquidity risk, in that on one hand, significant financial resources are held, with a net available positive financial position of Euro 108.6 million whilst on the other hand, it generates positive cash flows in its traditional segments,
- is not basically exposed to currency risk, whereas interest rate risk affects the yield on available cash (Euro 127.3 million) and the cost of the bank loan (Euro 18.7 million) obtained by Cairo Network; the Group makes limited use of financial hedging instruments to hedge currency risk on the acquisition of TV rights from film studios,
- is partly exposed to credit risk, primarily in relation to its advertising sales activities. This risk is however mitigated by the fact that exposure is distributed across a large number of customers and that credit monitoring and control procedures are in place. The client concentration/advertising revenue ratio has not basically changed versus prior years. Prolonged economic uncertainty in the short-medium term may, however, impact negatively on the quality of credit and on general payment terms.

4. Consolidated net financial position

The consolidated **net financial position** at 31 March 2016, versus the situation at 31 December 2015, is summarized as follows:

(€ thousands)	31/03/2016	31/12/2015	Change
Cash and cash equivalents	127,336	125,776	1,560
Current financial assets	-	-	-
Bank loans	(18,750)	(20,000)	1,250
Total	108,586	105,776	2,810

The bank loan granted by Unicredit S.p.A. and used by Cairo Network to pay part of the rights of use of the TV frequencies, is secured by a guarantee issued by the parent Cairo Communication.

5. Revenue

Gross operating revenue in 1Q16, split up by main business segment, can be analyzed as follows versus the amounts of 1Q15:



Gross revenue		Interim Management Report at 31/03/2016					
(€ thousands)							
	Magazine publishing	Advertising	TV publishing (La7)	Trovatore	Network operator (Cairo Network)	Intra-group eliminations and unallocated	Total
Magazine over-the-counter sales	17,690	-	-	-	-	-	17,690
Print media advertising	3,964	5,170	-	-	-	(3,904)	5,230
TV advertising	-	34,555	26,407	-	-	(23,791)	37,171
Stadium signage	-	1,023	-	-	-	-	1,023
Internet advertising	-	24	-	144	-	(143)	25
Revenue from concession of programming schedule spaces	-	-	142	-	-	-	142
Other TV revenue	-	-	321	-	-	-	321
Subscriptions	686	-	-	-	-	-	686
Books and catalogues	138	-	-	-	-	-	138
Other revenue	13	150	-	87	-	(213)	37
Signal transport services	-	-	-	-	218	(218)	-
VAT relating to publications	(314)	-	-	-	-	-	(314)
Total gross operating revenue	22,177	40,922	26,870	231	218	(28,269)	62,149
Other revenue	590	106	783	1	33	-	1,513
Total revenue	22,767	41,028	27,653	232	251	(28,269)	63,662

Gross revenue		Interim Management Report at 31/03/2015					
(€ thousands)							
	Magazine publishing	Advertising	TV publishing (La7)	Trovatore	Network operator (Cairo Network)	Intra-group eliminations and unallocated	Total
Magazine over-the-counter sales	17,689	-	-	-	-	-	17,689
Print media advertising	3,394	4,476	-	-	-	(3,340)	4,530
TV advertising	-	34,252	24,899	-	-	(23,499)	35,652
Stadium signage	-	860	-	-	-	-	860
Internet advertising	-	201	155	3	-	(113)	246
Revenue from concession of programming schedule spaces	-	-	298	-	-	-	298
Other TV revenue	-	-	265	-	-	-	265
Subscriptions	732	-	-	-	-	-	732
Books and catalogues	150	-	-	-	-	-	150
Other revenue	-	150	-	229	-	(355)	24
Network services	-	-	-	-	-	-	-
VAT relating to publications	(291)	-	-	-	-	-	(291)
Total gross operating revenue	21,674	39,939	25,617	232	-	(27,307)	60,155
Other revenue	515	125	3,353	-	-	-	3,993
Total revenue	22,189	40,064	28,970	232	-	(27,307)	64,148



PRINT MEDIA PUBLISHING

CAIRO EDITORE - CAIRO PUBLISHING

In 1Q16, Cairo Editore strengthened the results of its publications and worked on improving the levels of efficiency reached in containing production, publishing and distribution costs. Specifically:

- it continued its strategy of continuous expansion and enhancement of the product portfolio, in order to take advantage of market segments offering greater potential, with the launch of the fortnightly “Nuovo e Nuovo TV Cucina”, and with the planning of the launch, which took place on 20 April 2016, of “Enigmistica Più”;
- it continued to report highly positive operating results;
- the period under review basically confirmed the excellent circulation results, with revenue reaching Euro 17.7 million (Euro 17.7 million in 1Q15);
- Group gross advertising revenue amounted to Euro 5.1 million, up by 16% (+6% on a like-for-like basis of titles and number of issues) versus 1Q15 (Euro 4.4 million).

In 1Q16, gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro 2.9 million and approximately Euro 2.6 million (Euro 3.2 million and Euro 3 million in 1Q15), despite total costs of approximately Euro 0.1 million incurred to launch the new fortnightly “Nuovo e Nuovo TV Cucina”.

The Group weeklies confirmed the excellent circulation results achieved, with an average ADS circulation in the January-February two-month period of 2016 of 486,477 copies for “Settimanale DIPIU”, 309,672 copies for “DIPIU’ TV”, 171,539 copies for “Settimanale DIPIU’ e DIPIU’TV Cucina”, 176,083 copies for “Diva e Donna”, 213,517 copies for “Settimanale Nuovo”, 119,852 copies for “F”, 137,173 copies for “TVMia” and 98,886 copies for “Settimanale Giallo”, reaching a total of approximately 1.7 million average copies sold, and making the Group the leading publisher in copies of weeklies sold at newsstands, with an approximately 30% market share. Including the average sales of titles yet to be surveyed by ADS (“NuovoTV”, “Nuovo e Nuovo TV Cucina”) and the copies of the first issue of “Enigmistica Più”, average copies sold reach approximately 2.2 million.

On 26 January 2016, the Group launched “Nuovo e Nuovo TV Cucina”, the fortnightly magazine dedicated to good food for every cooking connoisseur, presenting easy, affordable and successful



recipes, sold as an option with the two weeklies “Nuovo” and “Nuovo TV”, which reported average sales of approximately 99 thousand copies in the first 11 issues.

In 1Q16, a study phase was launched on “Enigmistica Più”, the new weekly packed with games and other diversions that marks the landing of the Cairo Editore in the interesting sector of puzzle games; with its first issue, at the launch price of 50 cents, it sold approximately 250 thousand copies;

The publications that have been launched over the past few years have usually achieved positive margins in a short space of time. The last three weeklies launched before 2015 (“Settimanale Nuovo” in January 2012, the women’s weekly “F” in June 2012 and the weekly “Giallo” in April 2013) generated total revenue of Euro 22.9 million in 2015 and a contribution margin totaling Euro 4.1 million.

As far as circulation is concerned, the features of the Group’s publications and the Group strategy help maintain a strong lead over competitors in the current publishing market. Specifically:

- cover prices of the weeklies are lower, some half the price of those of the main competitors; this gap increases appeal and allows space for potential price increases, hence for increased profitability;
- sales are mostly over-the-counter (95%), with a minimum impact of revenue generated by gifts and sundry editorial material (approximately 2% on total publishing revenue, including advertising), whose sales figures have collapsed in the publishing segment; the Group has opted to focus on the quality of its publications; in 2015, gross advertising revenue generated by the Group’s publications accounted for 26% - an extremely low figure, therefore based to a lesser extent on the economic cycle - while the remaining 74% came from direct sales and subscriptions, proof of the high editorial quality of publications;
- weekly magazines, which account for approximately 90% of publishing sales revenue, are sold as single copies and not bundled with other weeklies and/or dailies to bolster sales;
- the remarkable sales volumes achieved, both in absolute terms and versus Cairo Editore’s competitors, make the advertising pages highly appealing in terms of



advertising cost per copy sold (equal to the difference between the price of the advertising page and copies sold), currently lower than the publications of its competitors.

In 2016, Cairo Editore will continue its growth strategy with the launch of new products, and will continue to pursue opportunities to optimize production, publishing and distribution costs, with the revision and reorganization of printing processes, the negotiations for the reduction of paper costs, the optimization of bordereau costs, and the revision of a number of other corporate processes.

ADVERTISING

Looking at the advertising segment, in 1Q16 the Cairo Communication Group continued to operate as advertising broker - with its subsidiary Cairo Pubblicità - selling space in the print media for Cairo Editore ("For Men Magazine", "Natural Style", "Settimanale DIPIU'", "DIPIU' TV" and weekly supplements "Settimanale DIPIU' e DIPIU'TV Cucina" and "Settimanale DIPIU' e DIPIU'TV Stellare", "Diva e Donna", "TV Mia", "Settimanale Nuovo", "F", "Settimanale Giallo", "Nuovo TV" and "Nuovo e Nuovo TV Cucina"), the Editoriale Giorgio Mondadori division ("Bell'Italia", "Bell'Europa", "In Viaggio", "Airone", "Gardenia", "Arte" and "Antiquariato") and for Editoriale Genesis ("Prima Comunicazione" and "Uomini e Comunicazione"), for the sale of advertising space on TV for La7 and La7d, and for Turner Broadcasting (Cartoon Network, Boomerang, CNN), on the Internet (Cartoon Network.it) and for the sale of stadium signage and space at the Olimpico in Turin for Torino FC.

In 1Q16, total gross advertising revenue, which includes TV advertising revenue invoiced directly by La7 (Euro 2.7 million), came to approximately Euro 43.6 million (Euro 41.5 million in 2015). Gross advertising sales on La7 and La7d channels amounted to Euro 36.6 million, up by approximately 4% versus 1Q15 (Euro 35.2 million). Advertising sales on Group publications also reported a highly positive trend, reaching Euro 5.1 million, up by 16% (+6% on a like-for-like basis of titles and number of issues) versus 1Q15 (Euro 4.4 million).

Gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 0.6 million and Euro 0.5 million (Euro 0.8 million and Euro 0.5 million in 1Q15).

TV PUBLISHING (La7)

The Group started operations in the TV publishing field in 2013, following acquisition from Telecom Italia Media S.p.A. of the entire share capital of La7 S.r.l. as from 30 April 2013, with

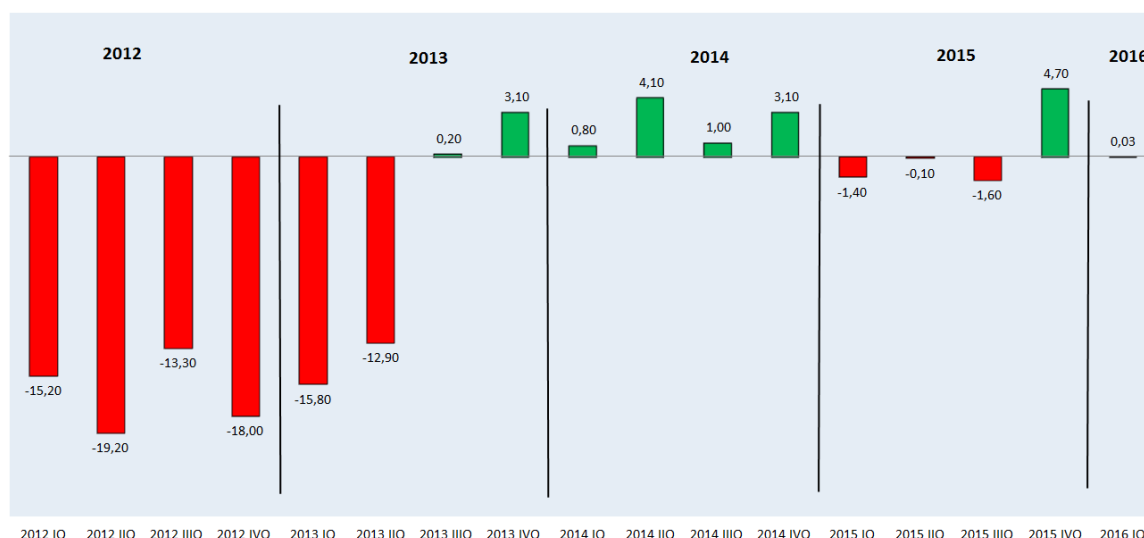


the upstream integration of its concessionaire business for the sale of advertising space, diversifying its publishing activities previously focused on magazines.

At the acquisition date, the financial situation of La7 had called for the implementation of a restructuring plan aimed at reorganizing and streamlining the corporate structure and at curbing costs, while retaining the high quality levels of the programming.

Starting from May 2013, the Group began to implement its own plan to restructure the company, achieving, as early as the May-December eight-month period of 2013, a positive gross operating profit (EBITDA) of Euro 3.7 million. In 2014 and 2015, the results of the cost rationalization measures implemented were strengthened, achieving a positive gross operating profit (EBITDA) in both years.

The trend of results (gross operating profit, EBITDA) achieved by La7 is shown in the chart below:



In 1Q16, the TV publishing segment (La7) achieved a positive gross operating profit (EBITDA) of approximately Euro 31 thousand, due also to the trend in advertising sales on La7 and La7d channels, which grew by approximately 4% versus 1Q15. Operating profit (EBIT) came to approximately Euro -2 million and benefited in the consolidated financial statements from lower amortization and depreciation of Euro 1.9 million, due to the write-down of tangible and intangible assets made in 2013 in the purchase price allocation of the investment in La7. In 1Q15, gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro -1.4 million and Euro -2.7 million. Operating profit (EBIT) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 3.5 million.



In 1Q16, the La7.it website generated Internet revenue of approximately Euro 285 thousand (Euro 155 thousand in 1Q15)

In 1Q16, La7's average all-day share was 2.79% and 3.34% in prime time (from 8:30 PM to 11:30 PM), with a high-quality target audience. La7d's share was 0.56% (0.59% in prime time). The audience figures of the channel's news and discussion programmes - such as the 8 PM newscast (5.1% from Monday to Friday), "Otto e mezzo" (5%), "Piazza Pulita" (3.1%), "Crozza nel Paese delle Meraviglie" (7.1%), "Coffee Break" (3.7%), "Omnibus" (3.4%), "La Gabbia" (2.9%), "L'aria che tira" (4.7%), "Bersaglio Mobile" (3.3%), "Di martedì" (5.2%) and the new "Eccezionale Veramente" (3.3%) - were positive. In April 2016, La7's share rose to 3.08%.

NETWORK OPERATOR (CAIRO NETWORK)

As mentioned earlier, the Group company Cairo Network, which took part in 2014 in the tender procedure opened by the Ministry of Economic Development for the assignment of rights to use TV frequencies for digital terrestrial broadcasting systems, winning the rights to use a lot of frequencies ("mux") for a period of 20 years, and entering in January 2015 with EI Towers S.p.A. into an agreement for the realization and subsequent long-term technical management in full service mode (hospitality, service and maintenance, use of broadcasting infrastructure, etc.) of the electronic communications network for the broadcasting of audiovisual media services on frequencies allocated, continued implementing the mux; at full performance, the mux will cover at least 94% of the national population, providing high-quality service levels.

With the implementation of the mux, the Cairo Communication Group will have at its autonomous disposal a broadcasting capacity of about 22.4 Mbps versus the current 7.2 Mbps provided by external operators, which could be used to broadcast the La7 and La7d channels starting from 2017, as well as new channels if the Cairo Communication Group were to launch any, and to provide third parties with broadcasting capacity.

IL TROVATORE

In 2016, Il Trovatore continued operations, mainly providing technological services to develop and maintain the online platforms of the Group's companies.



6. Income statement figures of the Parent

The main **income statement figures of Cairo Communication S.p.A.** in 1Q16 can be compared as follows with those of 1Q15:

(€ thousands)	31/03/2016 (Quarter)	31/03/2015 (Quarter)
Gross operating revenue	26,258	26,166
Advertising agency discounts	-	-
Net operating revenue	26,258	26,166
Other revenue and income	52	39
Total revenue	26,310	26,205
Production cost	(25,176)	(25,085)
Personnel expense	(744)	(743)
Gross operating profit (EBITDA)	390	377
Amortization, depreciation, provisions and impairment losses	(60)	(60)
EBIT	330	317
Net financial income	1	13
Income (loss) on investments	-	-
Pre-tax profit	331	330
Income tax	(125)	(123)
Non-controlling interests	-	-
Profit from continuing operations	206	207
Loss from discontinued operations	-	-
Profit for the period	206	207

In 2016, Cairo Communication continued to operate in TV advertising sales (La7, La7d and theme channels Cartoon Network, Boomerang and CNN) and on the Internet through its subsidiary Cairo Pubblicità on a sub-concession basis, invoicing advertising spaces directly to its customers and returning to Cairo Communication a share of revenue generated by resources managed on a sub-concession basis. Specifically:

- gross operating revenue was approximately Euro 26.3 million (Euro 26.2 million in 1Q15);
- parent gross operating profit (EBITDA) was approximately Euro 0.4 million (Euro 0.4 million in 1Q15);
- operating profit (EBIT) was approximately Euro 0.3 million (Euro 0.3 million in 1Q15);
- profit was approximately Euro 0.2 million (Euro 0.2 million in 1Q15).

The Parent **statement of comprehensive income** can be analyzed as follows:



(€ thousands)	31/03/2016 (Quarter)	31/03/2015 (Quarter)
Statement of comprehensive income of the Parent	206	207
Profit for the period		
<i>Other non-reclassifiable items of the comprehensive income statement</i>		
Actuarial profit (loss) from defined benefit plans	53	-
Tax effect	(13)	-
Total comprehensive income	246	207

7. Statement of financial position of Cairo Communication S.p.A.

The main figures of the **statement of financial position** of Cairo Communication S.p.A. at 31 March 2016 can be analyzed versus the situation at 31 December 2015:

(€ thousands)	31/03/2016	31/12/2015
<u>Statement of financial position</u>		
Property, plant and equipment	361	368
Intangible assets	276	295
Financial assets	23,226	23,027
Other non-current financial assets	10,263	8,963
Net current assets	1,234	3,908
Total assets	35,360	36,562
Non-current borrowings and provisions	1,283	1,452
(Net financial position)/Net debt	(10,318)	(9,039)
Equity	44,395	44,149
Total equity and liabilities	35,360	36,562

At their Meeting on 27 April 2016, the shareholders approved the distribution of a dividend of 0.20 Euro per share, inclusive of tax, with coupon detachment date on 9 May 2016. At 31 March 2016, this amount, equal to Euro 15.7 million, was still included in the equity reserves.

The increase in "other non-current financial assets", amounting to Euro 1.3 million, is attributable to the shareholder loan granted to the subsidiary Cairo Network S.r.l.

8. Net financial position of Cairo Communication S.p.A.

The **net financial position** of the Parent at 31 March 2016, versus the situation at 31 December 2015, is summarized as follows:



(€ thousands)	31/03/2016	31/12/2015	Change
Cash and cash equivalents	10,318	9,039	1,279
Current financial assets	-	-	-
Total	10,318	9,039	1,279

9. Transactions with parents, subsidiaries and associates

In 2016, transactions with related parties, including with Group companies, were not considered to be atypical or unusual, and were part of the ordinary activities of Group companies. These transactions were carried out on market terms, taking account of the goods and services provided.

In 1Q16, the relations and transactions with the parent U.T. Communications and with its subsidiaries can be analyzed as follows:

- the concession contract between Cairo Pubblicità and Torino FC S.p.A. (a subsidiary of U.T. Communications) for the sale of advertising space at the Olimpico football pitch and promotional sponsorship packages. This contract resulted in the payment in 2016 of Euro 0.8 million to the concession holder against revenue of Euro 0.9 million net of agency discounts. Cairo Pubblicità earned further commissions of Euro 25 thousand. As part of the agreement, Cairo Pubblicità also purchased football tickets worth approximately Euro 5 thousand;
- the agreement between Cairo Communication S.p.A. and Torino F.C. for the provision of administrative services such as bookkeeping, which provides for an annual consideration of Euro 100 thousand;
- the tax consolidation scheme.

10. Events occurring after 2015 and business outlook

Following the end of the quarter, on 8 April 2016, the Board of Directors of Cairo Communication resolved to launch a voluntary public exchange offer, pursuant to articles 102 and 106, par. 4, of the TUF, on all ordinary shares issued by RCS Mediagroup S.p.A. ("RCS"), corresponding to no. 521,864,957 (the "**Offer**").

The Offer, which aims to create a major multimedia publishing group with a stable and independent leadership, and to strengthen the economic and financial profile of RCS by accelerating its process of restructuring and relaunching:

- was disclosed to the market on the same day with a press release issued in accordance with art. 102, par. 1, of the TUF, and with art. 37 of the Issuer Regulations - available on the



Company's website www.cairocommunication.it, in the "Public Exchange Offer" section, which also illustrates the reasons of the Offer, its main elements and the conditions precedent to which the effectiveness of the Offer is subject;

- provides that for each RCS ordinary share tendered in the Offer, Cairo Communication pays a consideration to RCS' shareholders equal to no. 0.12 newly-issued Cairo Communication's ordinary shares (the "**Consideration**"). Accordingly, for each approximately 8.333 RCS' shares tendered in the Offer, the tendering shareholders will receive 1 Cairo Communication share.

At its meeting on 8 April 2016, the Board of Directors also resolved to call the Extraordinary Shareholders' Meeting of the Company on 12 May 2016 to resolve on the capital increase for the purpose of issuing Cairo Communication shares to be offered as consideration for the RCS shares tendered to the Offer.

From a technical standpoint, acceptance of the Offer by RCS' shareholders implies the contribution in kind of RCS' ordinary shares against the subscription of the capital increase, which represents, therefore, the prerequisite of the Offer. Under art. 2441, par. 4, of the Italian Civil Code, Cairo Communication's shareholders shall have no option right on the shares to be issued under the capital increase.

The following documents are available on the Company website www.cairocommunication.it, in the "2016 Extraordinary Shareholders' Meeting" section:

- the explanatory report of the Company's Board of Directors on the following single item on the agenda of the Extraordinary Shareholders' Meeting called on 12 May 2016, in single call, "Proposed cash increase in capital, excluding the option right, pursuant to art. 2441, par. 4, first sentence, of the Italian Civil Code, to be paid through contribution in kind, amending art. 6 of the bylaws. Related and consequent resolutions", prepared pursuant to art. 2441, par. 6, of the Italian Civil Code, to art. 152-ter of the TUF, and to art. 70 of the Issuer Regulations;
- the fairness opinion of the Audit Firm, prepared pursuant to art. 2441, par. 6, of the Italian Civil Code, and to art. 158, par. 1, of the TUF;
- the assessment of the independent expert certifying the value of RCS shares, pursuant to art. 2343-ter, par. 2, lett. b) of the Italian Civil Code.

On April 28, 2016, the Company submitted to Consob - pursuant to and in accordance with art. 102, par. 3, of Legislative Decree no. 58 of 24 February 1998 (the "TUF") and to art. 37-ter of the Regulation adopted by Consob by resolution no. 11971 of 14 May 1999 - the offer document



(the "Offer Document"), and, simultaneously, addressed a specific request to Consob to issue the equivalence opinion, in accordance with art. 34-ter, par. 1, lett. j) and art. 57, par. 1, lett. c) of the Issuer Regulations.

The Offer Document will be published, following the assessment made by Consob, pursuant to art. 102, par. 4, of the TUF.

In 1Q16, despite an economic context in general and relevant markets (advertising and publishing) still marked by uncertainty, the Cairo Communication Group:

- increased its results versus 1Q15 - +33.2% and +56.5% gross operating profit (EBITDA) and operating profit (EBIT) - thanks also to the trend of advertising sales on La7 and La7d channels and on Group publications;
- continued its growth strategy by launching “Nuovo e Nuovo TV Cucina”, the fortnightly magazine sold as an option with the two weeklies “Nuovo” and “Nuovo TV”, which posted average sales of approximately 99 thousand copies in the first 11 issues, and by planning the launch, which took place on 20 April 2016, of “Enigmistica Più”, a weekly packed with games and other diversions that marks the landing of Cairo Editore in the interesting world of puzzle games; with its first issue, at the launch price of 50 cents, it sold approximately 250 thousand copies;
- achieved highly positive results in the magazine publishing segment, with gross operating profit (EBITDA) and operating profit (EBIT) of Euro 2.9 million and Euro 2.6 million, confirming the high circulation levels of the publications, and worked on improving the levels of efficiency reached in containing costs (production, publishing and distribution);
- continued to work on strengthening the results of the rationalization and cost-curbing measures achieved in the TV publishing segment (La7) in 2013-2015, posting also in 1Q16 a positive gross operating profit of approximately Euro 31 thousand.

In the following months of 2016, the Cairo Communication Group will continue to:

- pursue the development of its traditional segments (magazine publishing and advertising sales), also continuing, in the publishing segment, its growth strategy based on continuous expansion and enhancement of the product portfolio, in order to take advantage of market segments offering greater potential, with the launch of the new publication “Enigmistica Più”, a weekly packed with games and other diversions that marks the landing of Cairo Editore in the interesting and high-potential sector of puzzle games; in these segments, despite the economic and competitive backdrop, given the high quality of the publications



and of the media under concession, the Group considers it a feasible target to continue to achieve positive operating results;

- work on strengthening the results of the rationalization and cost-curbing measures achieved in 2013-2015 in the TV publishing segment and developing its business in such segment, which is forecast to achieve a positive gross operating profit (EBITDA) in 2016 too.

However, the evolution of the general economic situation could affect the full achievement of these targets.

For the Board of Directors
Chairman Urbano Cairo



Declaration, pursuant to art 154-bis, par. 2 ,of Legislative Decree n. 58 of 24 February 1998 (T.U.F.)

The Financial Reporting Manager of Cairo Communication S.p.A., Marco Pompignoli, declares, pursuant to art. 154-bis, par. 2, of the Consolidated Finance Law, that the accounting information contained in this document is consistent with the underlying accounting documents, books and records.

Financial Reporting Manager
Marco Pompignoli