CAIRO COMMUNICATION

Annual Report at 31 December 2017

Cairo Communication S.p.A.
Head office: Corso Magenta 55, Milan
Share capital Euro 6,989,663.10

Translation into the English language solely for the convenience of international readers

CAIRO COMMUNICATION S.p.A.
Registered Office – Corso Magenta n. 55, Milan
Share Capital Euro 6.989.663,10
Company Register and Tax Code No. 07449170153

Notice of call of Shareholders' Meeting

(also available on www.cairocommunication.it in "assemblea2018" section)

Those entitled to participate and exercise their voting right are called for the Ordinary Shareholders' Meeting to be held at Sala Buzzati, via Balzan n. 3, Milan, at 10.00 AM on 27 April 2018, in a single call to discuss and resolve on the following

Agenda

1. Financial statements at 31 December 2017 - Reports by the Board of Directors, Board of Statutory Auditors and Audit Firm, Consolidated Financial Statements at 31 December 2017, allocation of net profit for the year and partial allocation of reserves. Resolutions pertaining thereto and resulting therefrom;
2. Compensation Report pursuant to art. 123-ter of Legislative Decree 57/1998; resolutions pertaining thereto and resulting therefrom;
3. Assignment of the statutory audit for the 2020-2028 period; approval of relating fees;
4. Authorization to purchase and sell treasury shares pursuant to art. 2357 et seq. of the Civil Code, prior to revocation of the decision of 8 May 2017.

Information regarding attendance and participation in the Shareholders' Meeting:

- the share capital of Cairo Communication S.p.A. (hereinafter, the "Company") is equal to Euro 6.989.663,10, represented by 134.416.598 ordinary shares, with no indication of the nominal value. Each ordinary share entitles shareholders to a single vote, except as provided by Articles 6 and 13 of the corporate bylaws for shares with increased voting rights. To this respect, at the date of the publication of this notice:
  - the conditions for the exercise of the increased voting rights did not occurred for any of the members of the Special List provided for in that Article 13 and
  - the Company held n. 779 treasury shares. Voting rights for such shares are suspended pursuant to applicable law (the number may vary during the period between the date of publication of this notice and the date of the Meeting).
- those entitled to participate in the Meeting may exercise the following rights:
  a. submit questions regarding items on the agenda, also before the Meeting, submitting them to the Company by 24 April 2018 according to the procedures specified on website www.cairocommunication.it in "assemblea2018" section, and, in particular, by written notice addressed to the Corporate Affairs Office, alternatively: filed at the operational offices of the Company in via Rizzoli n. 8, Milan, sent to the mentioned operational offices by registered mail with return receipt, sent via fax to 02 70103022, or by e-mail to the certified e-mail address assemblea@cairocommunication.legalmail.it. The parties involved shall provide information allowing their identification. The Company shall answer the questions during the Meeting, and may provide one overall answer to questions having the same content; further details on the procedure relating to the exercise of such right are available on website www.cairocommunication.it in "assemblea2018" section;
  b. pursuant to art. 126-bis of Legislative Decree 58/1998 (hereinafter referred to as TUF), shareholders representing, either individually or jointly with other shareholders, 1/40 of the Company's share capital, as further explained on website www.cairocommunication.it in "assemblea2018" section, may request for other matters to be discussed at the Meeting, indicating in their request the additional matters they propose to discuss, or submit resolution proposals on items already on the agenda, preparing a report containing the reasons for the resolution proposals on the new items they wish to discuss, or the reasons for the further resolution proposals submitted on items already on the agenda; the request and the report shall be submitted in writing, even separately, within 10 days from publication of this notice (i.e. within 7 April 2018), concurrent to certifying entitlement, with the procedures indicated on website www.cairocommunication.it in "assemblea2018" section, to which reference is

made for the further details on the procedure for the exercise of such right; each party entitled to vote may, however, individually submit resolution proposals during the Meeting; please note that, pursuant art. 126-bis of the TUF, the request for other matters to be discussed at the Meeting is not allowed if related to matters on which the Meeting has to deliberate on proposals to be made by the Board of Directors or based on project or relation to be prepared by the Board of Directors, other than those provided by art. 125-ter, par. 1, of the TUF;

- each party entitled to participate in the Meeting may be represented by written proxy (pursuant to the current provisions of law, regulations and bylaws), or conferred by electronic document signed in electronic form (pursuant to art. 21, paragraph 2, of Legislative Decree 82/05), signing the proxy form provided, upon request of the entitled party, by authorized intermediaries, or the proxy form available as from the date of publication of this notice of call at the operational offices of the Company in via Rizzoli n. 8, Milan, or on website www.cairocommunication.it in "assemblea2018" section; the proxy and the attached documents may be sent to the Company before commencement of the proceedings of the meeting, alternatively: by delivering them to the operational offices of the Company in via Rizzoli n. 8, Milan, by sending them at the mentioned registered offices through registered mail with return receipt, or by e-mail to the certified e-mail address assemblea@cairocommunication.legalmail.it, or by specific procedure on website www.cairocommunication.it, in "assemblea2018" section. Should the representative, which will attend the meeting, deliver or send a copy of the proxy, also in electronic format, to the Company, he/she shall attest, under his/her own responsibility, conformity of the proxy to the original document, as well as the identity of the delegating person when receiving accreditation to attend the meeting; further details are available on www.cairocommunication.it in "assemblea2018" section;
- the proxy may also be granted, free of charge for the delegating person, to Società per Amministrazioni Fiduciarie "SPAFID" S.p.A., appointed by the Company pursuant to art. 135-*undecies* of the TUF. The proxy has to be granted by signing the proxy form, also by way of electronic qualified signature or digital signature according to the applicable Italian law, available on the Company website www.cairocommunication.it in "assemblea2018" section or at the operational offices of the Company in via Rizzoli n. 8, Milan. The proxy has to be delivered to SPAFID by the end of the second day in which the stock market is open preceding the date of the Shareholders' Meeting (therefore by 25 April 2018), concurrent to copy of a valid and effective ID card of the delegating person or, if the delegating person is a legal entity, of its legal representative, or of the other person which has the relevant powers to delegate, together with the documents confirming such powers, to SPAFID S.p.A. as follows: (i) for the proxies with physical signature at the offices in Foro Buonaparte 10, 20121, by hand or sending it through courier or registered mail or (ii) for the proxies which are signed by way of electronic qualified signature or digital signature according to the applicable Italian law, by PEC to the certified e-mail address assemblee@pec.spafid.it..
  The proxy and voting instructions are revocable by the end of the second day in which the stock market is open preceding the date of the Shareholders' Meeting (therefore by 25 April 2018) with the above detailed formalities. The proxy shall have no effect with regard to the items on the agenda for which no voting instructions have been grant
  Please note that the shares for which the proxy has been granted, even with partial instructions, are counted for the purpose of regular constitution of the shareholders' meeting; in relation to proposals for which no voting instructions have been given, the shares are not counted in calculating the majority and the percentage of capital required for the approval of resolutions.
  The notice sent by the authorized intermediary is necessary also in order of granting a proxy; in case no notice will be sent to SPAFID, the proxy shall have no effect.

Moreover, it must be noted that:
- voting by correspondence or electronic means is not envisaged by the corporate Bylaws;
- pursuant to art. 83-*sexies* of the TUF, the entitlement to participate in the meeting and to exercise the voting right shall be attested by a notice sent by the authorized intermediary to the Company, based on its accounting records, in the name of the party entitled to the voting right, based on the corresponding evidence available at the expiration of the record date of the seventh stock market trading day before

the date set for the Shareholders' meeting, that is 18 April 2018 (record date); the registration (charged or credited) on the accounting records after that term will be not relevant to legitimate the participation to the meeting and to the exercise of the voting right; parties who become owners of the shares after such date shall have no right to attend and vote in the meeting; a party is legitimated to participate to the meeting and to the exercise of the voting right also if the notice sent by the authorized intermediary is delivered to the Company after such date, but in any case within the starting of the meeting;

- further documents related to the Shareholders' Meeting pursuant art. 125-*quarter* of the TUF shall be available on the website www.cairocommunication.it within the prescribed terms;
- without prejudice to any further obligations provided for by law and regulations, the following documents or information shall be made available to the public at Borsa Italiana S.p.A., on website www.cairocommunication.it in "assemblea2018" section, on the eMarket STORAGE storage mechanism (www.emarketstorage.com) and at the registered office of the Company, shareholders may be entitled to receive a copy of:
  - as from the date of publication of this notice, the report on each of the items on the agenda, pursuant to art. 125-*ter* of the TUF;
  - within the prescribed terms, the documents regarding the 2017 annual financial report, the non financial reporting, the report on corporate governance and ownership structure, and the Remuneration Report, pursuant to art. 123-*ter* of the TUF; the explanatory reports on the proposal related to the to purchase and sell of treasury shares.

This notice of call of sharholders' meeting is published today in accordance with Article 125-*bis* of the TUF on the internet site of the Company www.cairocommunication.it., and - as to an abstract – on the newspaper *Corriere della Sera*.

CAIRO COMMUNICATION SpA
For the Board of Directors
Chairman Urbano R. Cairo

Governance

Board of Directors

Urbano Cairo*	Chairman
Uberto Fornara	CEO
Daniela Bartoli	Director
Giuseppe Brambilla di Civesio	Director
Laura Maria Cairo	Director
Roberto Cairo	Director
Marella Caramazza	Director
Massimo Ferrari	Director
Antonio Magnocavallo	Director
Paola Mignani	Director
Marco Pompignoli	Director

Control and Risk Committee

Paola Mignani	Director
Daniela Bartoli	Director
Antonio Magnocavallo	Director

Remuneration and Appointments Committee

Marella Caramazza	Director
Daniela Bartoli	Director
Giuseppe Brambilla di Civesio	Director

Related Party Committee

Massimo Ferrari	Director
Marella Caramazza	Director
Paola Mignani	Director

Board of Statutory Auditors

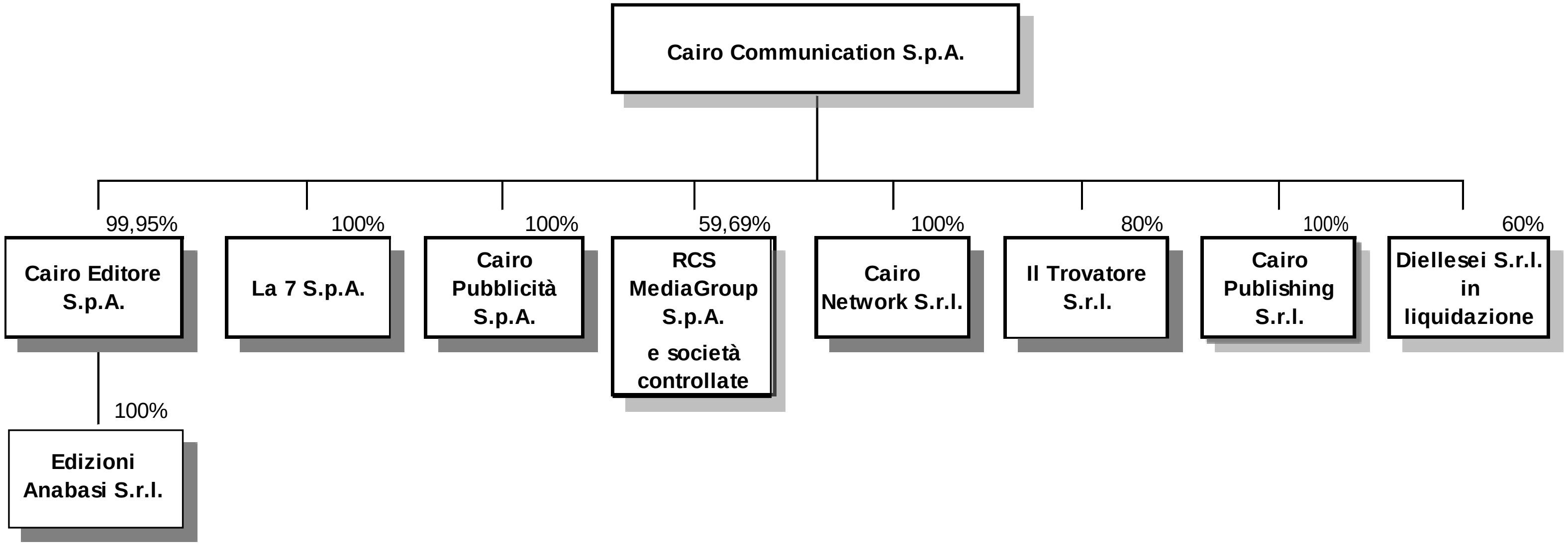
Michele Paolillo	Chairman
Marco Moroni	Standing Auditor
Gloria Marino	Standing Auditor
Laura Guazzoni	Alternate Auditor
Domenico Fava	Alternate Auditor

Independent Auditors

KPMG S.p.A.

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

The Group at 31 December 2017



DIRECTORS' REPORT

Separate financial statements and consolidated financial statements at 31 December 2017

Shareholders,

the separate and consolidated financial statements as at and for the year ended 31 December 2017, submitted for your approval, show, respectively, a profit of Euro 7.3 million and a profit attributable to the owners of the parent of Euro 52.0 million.

In 2017, the Cairo Communication Group operated 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;
- publisher of dailies and magazines (weeklies and monthlies) with the relating print and online advertising sales, in Italy and in Spain, through RCS MediaGroup, also active in the organization of major world sporting events;
- network operator (Cairo Network); January 2017 marked the start of the broadcasting of La7 and La7d channels on the mux.

With the acquisition of the control of RCS in 2016, Cairo Communication has become a major multimedia publishing group, with a stable, independent leadership, well-positioned to become the main player on the Italian market, with a strong international presence in Spain, by leveraging on the high quality and diversification of products in the dailies, magazines, television, web and sporting events segments.

In 2017, the general economic and financial climate continued to be marked by uncertainty.

Italy's economy in 2017 confirmed the upturn witnessed in 2016, with GDP growing by 1.5% (Source: ISTAT), lower than the European average. Surveys show a return to business confidence at pre-crisis levels. These assessments are corroborated by the faster pace of investment spending seen in the second part of the year (Source: Economic Bulletin - Bank of Italy).

In Spain, a market of operation for RCS through its subsidiary Unidad Editorial, GDP increased by 3.1% in 2017, slightly lower than in 2016 (3.3%), confirming the upswing of Gross Domestic Product for the fourth consecutive year (Source: INE)

In 2017, the Italian advertising market fell by 2.1%; the TV, magazine and daily newspaper advertising markets dropped by 1.6%, 6.2% and 7.7%, respectively. The online segment grew by 1.7% versus 2016 (AC Nielsen).

In 2017, the Spanish advertising sales market was up by 2% versus 2016 (Source: i2p, Arce Media). Specifically, the daily newspaper and magazine market fell by 6.7% and 6.1%, respectively, versus 2016. Advertising sales on the Internet, instead, increased by 15.2%.

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

On the Italian circulation front, the negative trend in print editions continued through 2017. Specifically, the main national generalist daily newspapers (with a circulation above 50 thousand copies) reported a 12.2% drop in circulation in 2017 (including digital copies), while the main sports newspapers fell by 6.9% (including digital copies) versus 2016 (ADS). Regarding the circulation market of publications stated in ADS in the first ten months of 2017, the magazines market generally fell by approximately 6% versus the same period of 2016: monthlies lost 12% and weeklies 4% (Internal Source based on ADS data).

The same trend was seen in Spain, with daily newspaper sales down versus 2016. Cumulative figures on circulation at December 2017 (OJD) regarding generalist newspapers (generalist newspapers with a circulation above 60 thousand copies), business newspapers and sports newspapers indicate a drop of 9.3%, 3.3% and 9.9%, respectively.

In 2017:

- RCS continued its relaunch, delivering a strong growth in margins versus the prior year (with a profit of Euro 71.1 million[1]), in line with 2017 performance targets, and reduced its net financial debt by Euro 78.7 million, down to Euro 287.4 million. The results of RCS contributed significantly to the growth of the Group's revenue and margins in 2017;
- the TV publishing segment La7 achieved gross operating profit of approximately Euro 7 million, up sharply versus 2016 (Euro 1.8 million);

[1] Amounts and comparisons based on the RCS 2017 Annual Report, approved on 15 March 2018

- the magazine publishing segment Cairo Editore posted positive results, achieved high circulation levels of the publications, and continued to work on improving the levels of efficiency reached in containing costs (production, publishing and distribution).

Mention should be made that:

- RCS was consolidated as from 1 September 2016. The consolidated income statement in 2016 includes only the RCS results of the September-December four-month period of 2016. The income statement figures of 2017, therefore, cannot be directly compared with the corresponding amounts of the prior year;
- the first part of 2017 saw the completion of the process for determining the fair value of the RCS Group's consolidated assets and liabilities required in the application of the "acquisition method" under IFRS 3. The process had also implied a different measurement of the assets and liabilities of the RCS Group at the date of the business combination from the measurement made at 31 December 2016, with resulting operating and financial effects, as explained in Note 15 to the consolidated financial statements.

Considering the Group's **entire scope of consolidation**, in 2017, consolidated gross revenue amounted to approximately Euro 1,212.3 million (comprising gross operating revenue of Euro 1,186.2 million and other revenue and income of Euro 26.1 million), rising sharply versus the prior year (Euro 631.7 million), due mainly to the consolidation of RCS for the entire year. Gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 168.8 million and Euro 102.7 million (Euro 85.6 million and Euro 51.5 million in the prior year). These margins in 2017 include net non-recurring expense of Euro 1.8 million (Euro 1.2 million in net non-recurring income in 2016). Profit attributable to the owners of the parent came to approximately Euro 52.0 million (Euro 21.5 million in 2016).

On a like-for-like basis, considering only the Cairo Editore magazine publishing segment, the advertising segment, the TV publishing segment La7, Il Trovatore and the network operator, consolidated gross revenue amounted to approximately Euro 251.7 million (comprising gross operating revenue of Euro 245.3 million and other revenue and income of Euro 6.4 million), down versus the prior year (Euro 263.7 million, comprising gross operating revenue of Euro 254.9 million and other revenue and income of Euro 8.8 million). Gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 20.4 million and Euro 6.6 million (Euro

17.1 million and Euro 7 million in 2016). Profit attributable to the owners of the parent came to Euro 4.9 million (Euro 7.1 million in 2016).

Looking at the business segments, in 2017:

- in the **magazine publishing segment (Cairo Editore)**, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 12.2 million and Euro 11.1 million (Euro 15.2 million and Euro 14 million in 2016). Regarding weeklies, with approximately 1.7 million average copies sold in the January-December twelve-month period of 2017 (ADS), Cairo Editore 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 out of the ADS survey (the copies sold of "Enigmistica Più"), average copies sold were approximately 1.8 million;
- in the **TV publishing segment (La7)**, the Group achieved positive gross operating profit (EBITDA) of approximately Euro 7 million, rising sharply versus the prior year (Euro 1.8 million in 2016). Operating profit (EBIT) came to approximately Euro -3 million and benefited in the consolidated financial statements, with respect to the separate financial statements of La7 S.p.A., from lower amortization and depreciation of Euro 3.3 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 2016, operating profit (EBIT) had come to Euro -6.6 million, benefiting in the consolidated financial statements from lower amortization and depreciation of Euro 5.4 million;
- in the **advertising segment**, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 0.4 million and to breakeven respectively (respectively breakeven and Euro -0.4 million in 2016);
- in the **network operator segment**, the Group company Cairo Network continued implementing the mux, the TV broadcasting system based on digital terrestrial technology; the mux covers at least 94% of the national population, providing high-quality service levels. January 2017 marked the start of the broadcasting of La7 channels on the mux;
- in the **RCS segment**, in the consolidated financial statements of Cairo Communication, gross operating profit (EBITDA) and operating profit (EBIT) amounted to Euro 148.4 million[2] and Euro 96 million, rising sharply by Euro 44.3[3] million and Euro 60.6 million[3]

[2] Mention should be made that RCS adopts a different definition of EBITDA from the one used by the Cairo Communication Group, as indicated in the section below "Alternative Performance Indicators". As a result of these differences, which lie in the provisions for risks and

versus 2016, when RCS was included only for the September-December four-month period in the scope of consolidation of the Cairo Communication Group. Net operating revenue[4], amounting to approximately Euro 891 million, dropped by an overall Euro 72.5[3] million versus 2016, due mainly to certain discontinuities, such as the termination in 2017 of a number of advertising sales contracts with third-party publishers (Euro 31.3 million), and to revenue related to sporting events in 2016, the European Football Championships and the Summer Olympics in particular (Euro -7.5 million). Net of these discontinuities, the change would have stood at Euro -33.7 million (approximately -3% versus 2016).

In 2017, La7's average all-day share was 2.88% and 3.37% in prime time (from 8:30 PM to 11:30 PM), with a high-quality target audience. La7d's share was 0.54% (0.47% in prime time). The audience figures of the channel's news and discussion programmes - such as the 8 PM newscast (5.3% from Monday to Friday), "Otto e mezzo" (5.7%), "Piazza Pulita" (4.3%), "Coffee Break" (3.9%), "Omnibus" (3.8%), "L'aria che tira" (5.2%), "Bersaglio Mobile" (3.2%), "Di martedì" (5%), "In Onda" (4.4%), "Miss Italia" (6.5%), "Propaganda Live" (6.5%), "Atlantide" (2.7%), and "Non è l'Arena" (6.5%) - were positive.

PERFORMANCE

Cairo Communication Group – Consolidated figures

Mention should be made that RCS was consolidated as from 1 September 2016. The consolidated income statement in 2016 includes only the RCS results of the September-December four-month period of 2016. The income statement figures of 2017, therefore, cannot be directly compared with the corresponding amounts of the prior year.

The main **consolidated income statement** figures in 2017 can be compared with the figures in 2016:

in the allowance for impairment, amounting in the year to Euro 10.2 million, EBITDA shown in the RCS 2017 Annual Report approved on 15 March 2018 amounted to Euro 138.2 million

[3] Comparison based on the RCS 2017 Annual Report, approved on 15 March 2018

[4] In the RCS 2017 Annual Report, amounting to Euro 895.9 million, due to the different classification of certain items.

(€ millions)	31/12/2017	31/12/2016
Gross operating revenue	1,186.2	614.5
Advertising agency discounts	(76.8)	(48.4)
Net operating revenue	**1,109.4**	**566.1**
Change in inventories	(0.3)	(1.2)
Other revenue and income	26.1	17.2
Total revenue	**1,135.3**	**582.1**
Production cost	(645.3)	(349.2)
Personnel expense	(321.4)	(150.2)
Income (expense) from investments measured at equity	2.1	1.7
Non-recurring income and expense	(1.8)	1.2
Gross operating profit (EBITDA)	**168.8**	**85.6**
Amortization, depreciation, provisions and impairment losses	(66.1)	(34.1)
EBIT	**102.7**	**51.5**
Income (loss) on investments	16.2	(0.2)
Net financial income	(24.8)	(9.0)
Pre-tax profit	**94.1**	**42.3**
Income tax	(10.8)	(10.3)
Non-controlling interests	(31.3)	(10.5)
Profit attributable to the owners of the parent	**52.0**	**21.5**

In 2017, consolidated gross revenue amounted to approximately Euro 1,212.3 million (comprising gross operating revenue of Euro 1,186.2 million and other revenue and income of Euro 26.1 million), rising sharply versus 2016 (Euro 631.7 million, comprising gross operating revenue of Euro 614.5 million and other revenue and income of Euro 17.2 million), due mainly to the consolidation of RCS for all the twelve months of the year. Consolidated gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro 168.8 million and Euro 102.7 million (Euro 85.6 million and Euro 51.5 million in 2016). These margins include net non-recurring expense of Euro 1.8 million (Euro 1.2 million in net income in 2016).

As for revenue, the main changes in consolidated gross operating profit (EBITDA) and operating profit (EBIT), as shown in the tables on business segment results, are attributable to the consolidation of RCS for all the twelve months of the year.

The consolidation of the RCS Group also in the first eight months of 2016 would have produced, in the year ended 31 December 2016, higher consolidated gross revenue of Euro 662.6 million, and a deterioration of the consolidated profit attributable to the Cairo Communication Group of Euro 10 million.

As explained earlier, in 2017 operating profit (EBIT) in the TV publishing segment (La7) benefited in the consolidated financial statements, with respect to the separate financial statements of La7 S.p.A., from lower amortization and depreciation of Euro 3.3 million (Euro 5.4 million in 2016), due to the write-down of tangible and intangible assets made in 2013 in the purchase price allocation of the investment in La7.
Operating profit (EBIT) in the RCS segment benefited in the consolidated financial statements from lower amortization of intangible assets of Euro 0.5 million, due to the valuations made in the purchase price allocation of the investment in RCS.

Mention should be made that the first half of 2017 saw completion of the measurement of the fair value of assets/liabilities acquired in the business combination of RCS at 31 August 2016; the result led also to a different measurement of the assets and liabilities of the RCS Group at the combination date from the measurement shown at 31 December 2016, with resulting income statement and balance sheet effects.
Specifically, profit attributable to the owners of the parent shown in the comparative income statement at 31 December 2016 has been adjusted against the corresponding item appearing in the 2016 Annual Report to reflect the following effects:

- the reversal of amortization of the September-December four-month period of 2016 attributable to the titles Marca and Expansion with indefinite useful life (considered with finite useful life in the 2016 consolidated financial statements of the RCS Group) for Euro 3.3 million (Euro 1.5 million net of tax effects and non-controlling interests);
- recognition for the September-December four-month period of 2016 of amortization of the fair value attributed to previously unrecognized intangible assets with finite useful life of Euro 0.6 million (Euro 0.3 million net of tax effects and non-controlling interests).

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

(€ millions)	***31/12/2017***	***31/12/2016***
Profit for the year	***83.3***	***32.0***
Reclassifiable items of the comprehensive income statement		
Gains (losses) from the translation of financial statements denominated in foreign currencies	*-*	*(0.1)*
Reclassification of profit (loss) from the translation of financial statements in foreign currencies	*-*	*0.2*
Gains (losses) on cash flow hedges	*(0.2)*	*0.1*
Reclassification of profit (loss) on cash flow hedges	*3.6*	*1.4*
Tax effect	*(0.8)*	*(0.4)*
Non-reclassifiable items of the comprehensive income statement		
Actuarial profit (loss) from defined benefit plans	*(0.4)*	*(1.5)*
Tax effect	*0.1*	*0.4*
Total comprehensive income attributable to the owners of the parent	***85.6***	***32.1***

The Group's performance can be read better by analyzing the 2017 results by **main business segment** (magazine publishing Cairo Editore, advertising Cairo Pubblicità, TV publishing La7, network operator Cairo Network, Il Trovatore and RCS) versus those of 2016:

2017 (€ millions)	Magazine publishing Cairo Editore	Advertising	TV publishing La7	RCS	Trovatore	Network operator (Cairo Network)	Non-recurring expense unallocated	Intra and un allocated	Total
Gross operating revenue	90.1	173.1	99.1	943.6	0.9	7.9	-	(128.5)	1,186.2
Advertising agency discounts	-	(24.4)	-	(52.6)	-	-	-	0.2	(76.8)
Net operating revenue	**90.1**	**148.7**	**99.1**	**891.0**	**0.9**	**7.9**	**-**	**(128.4)**	**1,109.4**
Change in inventory	0.0	-	-	(0.3)	-	-	-	-	(0.3)
Other revenue and income	2.9	0.8	2.3	20.9	0.0	0.1	-	(0.9)	26.1
Total revenue	**93.0**	**149.5**	**101.4**	**911.6**	**0.9**	**8.0**	**-**	**(129.2)**	**1,135.3**
Production cost	(61.1)	(140.0)	(60.0)	(505.4)	(0.7)	(7.3)	-	129.2	(645.3)
Personnel expense	(19.7)	(9.1)	(34.4)	(258.1)	(0.0)	(0.2)	-	-	(321.4)
Income (expense) from investments measured at equity	-	-	-	2.1	-	-	-	-	2.1
Non-recurring income (expense)	-	-	-	(1.8)	-	-	-	-	(1.8)
Gross operating profit (EBITDA)	**12.2**	**0.4**	**7.0**	**148.4**	**0.1**	**0.6**	**-**	**0.0**	**168.8**
Amortization, depreciation, provisions and impairment losses	(1.1)	(0.4)	(10.1)	(52.3)	0.0	(2.2)	-	-	(66.1)
EBIT	**11.1**	**0.0**	**(3.0)**	**96.0**	**0.1**	**(1.6)**	**-**	**0.0**	**102.7**
Income (loss) on investments	-	-	-	16.2	-	-	-	-	16.2
Net financial income	(0.0)	(0.4)	0.2	(24.4)	(0.0)	(0.1)	-	-	(24.8)
Pre-tax profit	**11.1**	**(0.4)**	**(2.9)**	**87.8**	**0.1**	**(1.7)**	**-**	**0.0**	**94.1**
Income tax	(3.4)	(0.4)	2.1	(9.4)	(0.0)	0.4	-	-	(10.8)
Non-controlling interests	-	-	-	(31.3)	(0.0)	-	-	-	(31.3)
Profit for the period attributable to the owners of the parent	**7.7**	**(0.8)**	**(0.8)**	**47.1**	**0.1**	**(1.3)**	**-**	**0.0**	**52.0**

2016 (€ millions)	Magazine publishing Cairo Editore	Advertising	TV publishing La7	RCS	Trovatore	Network operator (Cairo Network)	Non-recurring expense unallocated	Intra and un allocated	Total
Gross operating revenue	97.4	173.7	102.8	359.6	1.0	1.0	-	(120.9)	614.5
Advertising agency discounts	-	(24.8)	-	(23.6)	-	-	-	-	(48.4)
Net operating revenue	**97.4**	**148.9**	**102.8**	**336.0**	**1.0**	**1.0**	**-**	**(120.9)**	**566.1**
Change in inventory	(0.2)	-	-	(1.1)	-	-	-	-	(1.2)
Other revenue and income	2.5	0.6	5.5	8.4	0.0	0.1	-	-	17.2
Total revenue	**99.8**	**149.5**	**108.3**	**343.3**	**1.0**	**1.1**	**-**	**(120.9)**	**582.0**
Production cost	(64.7)	(140.4)	(71.6)	(191.4)	(0.8)	(1.1)	-	120.9	(349.2)
Personnel expense	(19.8)	(9.0)	(34.8)	(86.3)	(0.0)	(0.1)	-	-	(150.2)
Income (expense) from investments measured at equity	-	-	-	1.7	-	-	-	-	1.7
Non-recurring income (expense)	-	-	-	3.1	-	-	(1.9)	-	1.2
Gross operating profit (EBITDA)	**15.2**	**0.0**	**1.8**	**70.4**	**0.1**	**(0.1)**	**(1.9)**	**-**	**85.7**
Amortization, depreciation, provisions and impairment losses	(1.3)	(0.4)	(8.5)	(24.0)	0.0	(0.0)	-	-	(34.1)
EBIT	**14.0**	**(0.4)**	**(6.6)**	**46.4**	**0.1**	**(0.1)**	**(1.9)**	**-**	**51.5**
Income (loss) on investments	-	-	-	(0.2)	-	-	-	-	(0.2)
Net financial income	(0.0)	(0.2)	0.5	(9.2)	(0.0)	(0.0)	-	-	(9.0)
Pre-tax profit	**13.9**	**(0.6)**	**(6.2)**	**37.0**	**0.1**	**(0.1)**	**(1.9)**	**-**	**42.3**
Income tax	(4.8)	(0.1)	4.9	(10.7)	(0.0)	0.0	0.5	-	(10.3)
Non-controlling interests	-	-	-	(10.5)	(0.0)	-	-	(0.0)	(10.5)
Profit for the period attributable to the owners of the parent	**9.1**	**(0.7)**	**(1.3)**	**15.8**	**0.1**	**(0.1)**	**(1.4)**	**(0.0)**	**21.5**

Gross operating revenue in 2017, split up by main business segment, can be analyzed as follows versus the amounts of 2016:

2017 (€ millions)	Magazine Cairo Ed.	Advertising	TV publishi La7	RCS	Trovatore	Network operator	Intra and un allocated	Total
TV advertising	-	141.3	95.6	2.9	-	-	(96.8)	**143.0**
Advertising on print media, Internet and sporting events	20.4	31.2	1.6	459.5	-	-	(21.0)	**491.7**
Other TV revenue	-	-	1.9	8.7	-	-	(0.5)	**10.0**
Magazine over-the-counter sales and subsc	71.2	-	-	345.1	-	-	(0.3)	**416.1**
VAT relating to publications	(1.5)	-	-	(4.8)	-	-	-	**(6.3)**
Other revenue	-	0.6	-	132.2	0.9	7.9	(9.9)	**131.7**
Total gross operating revenue	**90.1**	**173.1**	**99.1**	**943.6**	**0.9**	**7.9**	**(128.5)**	**1,186.2**
Other revenue	2.9	0.8	2.3	20.9	0.0	0.1	(0.9)	26.1
Total gross operating revenue	**93.0**	**173.9**	**101.4**	**964.5**	**0.9**	**8.0**	**(129.4)**	**1,212.3**

2016 (€ millions)	Magazine Cairo Ed.	Advertising	TV publishi La7	RCS	Trovatore	Network operator	Intra and un allocated	Total
TV advertising	-	141.6	99.1	1.0	-	-	(96.6)	**145.1**
Advertising on print media, Internet and sporting events	21.5	31.5	1.5	194.1	-	-	(21.5)	**227.1**
Other TV revenue	-	-	2.2	2.9	-	-	(0.1)	**5.0**
Magazine over-the-counter sales and subsc	77.5	-	-	120.8	-	-	(0.3)	**198.0**
VAT relating to publications	(1.6)	-	-	(1.4)	-	-	-	**(3.0)**
Other revenue	-	0.6	-	42.1	1.0	1.0	(2.4)	**42.3**
Total gross operating revenue	**97.4**	**173.7**	**102.8**	**359.5**	**1.0**	**1.0**	**(120.9)**	**614.5**
Other revenue	2.5	0.6	5.5	8.4	-	0.2	-	17.2
Total gross operating revenue	**99.9**	**174.3**	**108.3**	**367.9**	**1.0**	**1.2**	**(120.9)**	**631.7**

The main **consolidated statement of financial position** figures at 31 December 2017 can be compared with the situation at 31 December 2016:

(€ millions)	31/12/2017	31/12/2016
Statement of financial position		
Property, plant and equipment	97.7	111.4
Intangible assets	1,008.2	1,017.8
Financial assets	65.0	73.5
Deferred tax assets	113.3	126.2
Net working capital	(87.1)	(95.4)
Total assets	**1,197.1**	**1,233.5**
Non-current borrowings and provisions	121.9	137.5
Deferred tax provision	169.7	177.6
(Financial position)/Net debt	263.1	352.6
Equity attributable to the owners of the parent	391.6	344.8
Equity attributable to non-controlling interests	250.8	221.0
Total equity and liabilities	**1,197.1**	**1,233.5**

Mention should be made that at the date of preparing the 2016 Annual Report, the determination of the fair value of RCS assets and liabilities required in the application of the “acquisition method" under IFRS 3 was still in progress; the difference (Euro 262.3 million) between the value of the investment in RCS and the consolidated pro rata equity of the RCS Group at the combination date of 31 August 2016 (the acquired scope had, in fact, been consolidated as from 1 September 2016) had been provisionally booked to “consolidation differences”.

As explained in Note 15 to the consolidated financial statements at 31 December 2017, the first half of 2017 saw completion of the measurement process of the fair value of assets/liabilities acquired in the business combination of RCS, with the recording at the combination date (replacing the provisionally booked "RCS Group consolidation difference" and goodwill amounting to Euro 39.1 million previously recognized at 31 December 2016 in the financial statements of RCS) of previously unrecognized intangible assets (mainly titles and trademarks) of Euro 407.8 million, Euro 348.8 million of which with indefinite useful life, and Euro 59 million with finite useful life, and deferred tax liabilities of Euro 120.6 million, for a total net amount of Euro 287.2 million. Considering the share attributable to non-controlling interests, goodwill of approximately Euro 191.4 million remains, determined using the “full goodwill” method. The amounts recorded in the RCS consolidated financial statements at the acquisition date were confirmed for the Spanish titles by Cairo Communication. Daily newspapers were considered with indefinite useful life, given both their characteristics (market leadership, authority, foundation year) and international practices, while magazines were considered with useful life of 30 years.

Completion of the valuation requirements under IFRS 3 resulted in a different measurement of the assets and liabilities of the RCS Group at the date of the business combination from the measurement made at 31 December 2016, with resulting income statement and financial effects, as explained in Note 15 to the consolidated financial statements at 31 December 2017.

Mention should be made that, at their Meeting on 8 May 2017, the shareholders approved the distribution of a dividend of Euro 0.05 per share, gross of taxes, with coupon detachment date on 22 May 2017.

In 2017, as part of the share buy-back plans, no treasury shares were sold or purchased. At 31 December 2017, Cairo Communication held a total of no. 779 treasury shares, or 0.001% of the share capital, subject to art. 2357-ter of the Italian Civil Code.

The consolidated **net financial position** at 31 December 2017, versus the situation at 31 December 2016, can be summarized as follows:

Net financial debt (€ millions)	**31/12/2017**	**31/12/2016**	**Change**
Cash and cash equivalents	128.1	124.8	3.3
Other current financial assets and financial receivables	0.9	1.2	(0.3)
Current financial assets (liabilities) from derivative instruments	(1.0)	-	(1.0)
Current financial payables	(72.0)	(110.1)	38.1
Current net financial position (net financial debt)	**56.0**	**15.9**	**40.1**
Non-current financial payables	(319.0)	(363.4)	44.4
Non-current financial assets (liabilities) from derivative instruments	(0.1)	(5.1)	5.0
Non-current net financial position (net financial debt)	**(319.1)**	**(368.5)**	**49.4**
Net financial position (Net financial debt) from continuing operations	**(263.1)**	**(352.6)**	**89.5**

At 31 December 2017, the net financial debt of RCS came to Euro 287.4 million (Euro 366.1 million at 31 December 2016).

The improvement in net financial debt versus 31 December 2016, equal to Euro 89.5 million, is attributable mainly to cash flows from ordinary operations (approximately Euro 118.7 million), to the collection of net gains from disposals and acquisitions (approximately Euro 15.3 million), only partly offset by outlays for non-recurring expense (Euro 21.2 million), to investing activities, and to the distribution of dividends (Euro 6.7 million, amounting to Euro 0.05 per share gross of taxes).

On 4 August 2017, RCS concluded a loan agreement with a pool of banks: Banca IMI S.p.A. as Organizing Bank, Agent and Coordinator, Intesa Sanpaolo S.p.A. as Lender and Banca Popolare di Milano S.p.A., Mediobanca – Banca di Credito Finanziario S.p.A., UBI Banca S.p.A. and UniCredit S.p.A. as Organizing Banks and Lenders.

The new agreement provides for a loan of Euro 332 million expiring on 31 December 2022, which will be used to fully refinance the bank loan under the agreement initially concluded by RCS on 14 June 2013 with a pool of banks, amended on several occasions (the latest on 16 June 2016).

The main terms and conditions of the loan are, *inter alia*, the following:

a) the breakdown of the loan into an amortizing term facility of Euro 232 million and a revolving credit line of Euro 100 million;
b) an annual interest rate equal to the sum of the benchmark Euribor and a variable spread, depending on the Leverage Ratio, which is more favourable for the company than the spreads set out in the previous loan;
c) a single covenant based on a Leverage Ratio (i.e., Net debt/EBITDA). The covenant must not exceed (i) 3.45x at 31 December 2017, (ii) 3.25x at 31 December 2018, and (iii) 3x at 31 December of each following year;
d) a repayment schedule for the amortizing term facility, which sets out the repayment of Euro 15 million at 31 December 2017 followed by six-month instalments of Euro 12.5 million.

The loan agreement envisages compulsory early repayment, statements, obligations, withdrawal and materiality threshold clauses that are, altogether, more favourable for RCS than the previous loan agreement. These clauses apply, for instance, to treasury agreements and intra-group loans and guarantees, acquisitions, joint ventures, investments and reorganization, financial debt assumption, transfers and share capital reduction.

In December 2017, the term amortizing line decreased to Euro 208 million, following both the scheduled repayment and the compulsory early repayment of Euro 10 million as a portion of the gains from the disposal of the investment in IEO (Istituto Europeo di Oncologia). The repayment also resulted in a review, pursuant to the Loan Agreement, of the repayment plan, reducing the scheduled half-year portion from Euro 12.5 million to Euro 11.6 million.

To analyze the major financial indicators, the consolidated asset structure at 31 December 2017 can be examined using a reclassified statement showing increasing liquidity/settlement:

(€ millions)	31/12/2017	31/12/2016
Non-current assets		
PPE and intangible assets	1,105.9	1,129.2
Financial assets	49.7	58.0
Other non-current assets	15.3	15.5
Deferred tax assets	113.3	126.2
Total non-current assets	**1,284.2**	**1,328.9**
Current assets		
Inventory	18.2	20.3
Trade receivables (unavailable liquid funds)	293.2	316.1
Other unavailable liquid funds	57.6	69.7
Total operating working capital	**369.0**	**406.1**
Other current financial assets	0.9	1.2
Available liquid funds	128.1	124.8
Total current assets	**498.0**	**532.1**
Invested capital	**1,782.2**	**1,861.0**
Equity attributable to the owners of the parent	**642.4**	**565.8**
Consolidated liabilities		
Non-current post-employment benefits and provisions for risks and charges	66.5	89.6
Deferred tax liabilities	169.7	177.6
Other non-current liabilities	0.9	3.3
Non-current borrowing liabilities	319.1	368.5
Total consolidated liabilities	**556.2**	**639.0**
Current liabilities		
Current portion of provisions for risks and charges	54.4	44.6
Current operating liabilities	456.2	501.5
Current borrowing liabilities	73.0	110.1
Total current liabilities	**583.6**	**656.2**
Financing capital	**1,782.2**	**1,861.0**
Profit	52.0	21.5
Operating profit (EBIT)	102.7	51.5
Sales	1,109.4	566.1

The table below shows the analysis of the operating results and cash flows of the Group through the main key performance indicators:

(€ millions)	Description	31/12/2017	31/12/2016
Solvency indicators			
Current assets less current liabilities margin	Current assets-current liabilities	(85.6)	(124.1)
Current assets less current liabilities ratio	Current assets /current liabilities	0.9	0.8
Treasury margin	(Unavailable liquid funds + available liquid funds)-current liabilities	(103.8)	(144.4)
Treasury ratio	(Unavailable liquid funds + available liquid funds)/current liabilities	0.8	0.8
Non-current asset financing indicators			
Own funds less fixed assets margin	Own funds – non-current assets	(641.8)	(763.1)
Own funds less non-current assets ratio	Equity /non-current assets	0.5	0.4
Own funds plus non-current liabilities less non-current assets margin	Own funds+ non-current liabilities) – non-current assets	(404.7)	(492.6)
Own funds plus non-current liabilities less non-current assets ratio	(Own funds+ non-current liabilities)/non-current assets	0.7	0.6
Financing structure indicators			
Total liabilities-to-equity ratio	(non-current + current liab.)/Own funds	1.8	2.3
Financing debt ratio	Third-party funds/Own funds	0.6	0.8
Current operating assets - current operating liabilities		(87.2)	(95.4)
Profitability indicators			
ROE	Profit /Own funds	8.1%	3.8%
ROE current operations	Profit curr. op./Own funds	7.9%	3.9%
ROI	Operating profit / (Inv. op. capital – op. liabilities)	8.1%	3.9%
ROI current operations	Operating profit current operations/ (Inv. op. capital – op. liabilities)	8.2%	3.8%
Other indicators			
Receivables turnover		79	80

Solvency indicators (liquidity), which represent the ability to maintain short-term financial stability, namely to meet short-term outflows (current liabilities) with existing cash (available liquid funds) and short-term inflows (unavailable liquid funds), show that current liabilities are higher than current assets.

In this regard, at 31 December 2017:

- only approximately Euro 78.2 million out of the medium-long term revolving credit facility granted by Banca Intesa to Cairo Communication for a total amount of Euro 140 million had been drawn down at 31 December 2017;
- only Euro 50 million out of a total of Euro 100 million of the revolving line set out in the RCS loan agreement had been drawn down at 31 December 2017;
- the publishing companies have a negative net working capital (current assets net of current liabilities, not including financial assets or liabilities) since a portion of the trade receivables (those from sales in the publishing segment) are transformed into cash more quickly than average supplier payment terms;
- the Group attempts to ensure that an appropriate ability to generate cash is maintained, even under the current market conditions.

The statement of cash flow is used to analyze overall dynamics and origins of cash movements.

The financing structure and non-current assets financing indicators express the strength of equity, and the ability of the company to maintain financial stability in the medium/long term, which depends on:

- the methods of funding medium/long term commitments,
- the composition of funding sources.

An analysis of the indicators shows that own funds cover the funding of approximately 50% of the fixed assets, while the remaining part is substantially funded by non-current liabilities (with Euro 319 million of a financial nature) and negative working capital.

Regarding profitability indicators, the ROI (Return on Invested capital) is an indicator that expresses the level of efficiency/effectiveness of corporate management. Invested capital as the denominator is restated for an equivalent amount of liabilities without explicit maturity since their cost is substantially included in operating profit.

Cairo Communication S.p.A. - Parent performance

The main **income statement figures of Cairo Communication S.p.A.** in 2017 can be compared as follows versus those in 2016:

(€ millions)	**31/12/2017**	**31/12/2016**
Gross operating revenue	105.5	107.7
Advertising agency discounts	-	-
Net operating revenue	**105.5**	**107.7**
Other revenue and income	1.2	0.3
Total revenue	**106.7**	**108.0**
Production cost	(103.5)	(105.5)
Personnel expense	(3.2)	(3.1)
Gross operating profit (EBITDA)	**-**	**(0.6)**
Amortization, depreciation, provisions and impairment losses	(0.3)	(0.3)
EBIT	**(0.3)**	**(0.9)**
Net financial income	(0.5)	(0.2)
Income (loss) on investments	8.3	8.1
Pre-tax profit	**7.5**	**7.0**
Income tax	(0.2)	-
Profit for the year	**7.3**	**7.0**

In 2017, Cairo Communication continued to operate in TV advertising sales (La7, La7d and theme channels Cartoon Network, Boomerang and Torino Channel) 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, looking at current operations:

- gross revenue was approximately Euro 106.7 million (Euro 108 million in 2016);
- gross operating profit (EBITDA) was basically at breakeven (Euro -0.6 million in 2016, affected by the impact of non-recurring expense of Euro 1.9 million from the costs incurred in the Offer on RCS);
- operating profit (EBIT) was approximately Euro -0.3 million (Euro -0.9 million in 2016);
- profit was approximately Euro 7.3 million (Euro 7 million in 2016).

“Income (loss) on investments” includes the dividends approved by the subsidiary Cairo Editore, amounting to Euro 8.5 million. In 2016, the item included the dividends approved by Cairo Editore, amounting to Euro 8.2 million.

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

(€ millions)	31/12/2017	31/12/2016
Statement of comprehensive income of the Parent		
Profit	7.3	7.0
Other non-reclassifiable items of the comprehensive income statement		
Actuarial profit (loss) from defined benefit plans	-	-
Tax effect	-	-
Total comprehensive income	**7.3**	**7.0**

The main **statement of financial position** figures of Cairo Communication S.p.A. at 31 December 2017 can be compared with the situation at 31 December 2016:

(€ millions)	31/12/2017	31/12/2016
Statement of financial position		
Property, plant and equipment	0.3	0.4
Intangible assets	0.2	0.3
Financial assets	328.9	328.1
Other non-current financial assets	16.8	12.8
Net trade working capital	(14.3)	(8.1)
Total assets	**331.9**	**333.5**
Non-current borrowings and provisions	1.5	1.4
(Financial position)/Net debt	71.6	73.8
Equity	258.8	258.3
Total equity and liabilities	**331.9**	**333.5**

Mention should be made that, at their Meeting on 8 May 2017, the shareholders approved the distribution of a dividend of Euro 0.05 per share, gross of taxes, for a total of Euro 6.7 million, with coupon detachment date on 22 May 2017.

The **net financial position** of the Parent at 31 December 2017, versus the situation at 31 December 2016, is summarized as follows:

(€ millions)	31/12/2017	31/12/2016	Change
Cash and cash equivalents	6.6	4.4	2.2
Current financial assets	-	-	-
Non-current financial payables	(78.2)	(78.2)	-
Total	**(71.6)**	**(73.8)**	**2.2**

Non-current financial payables refers to the revolving facility for a total amount of Euro 140 million, of which approximately Euro 78.2 million drawn down, aimed at funding both the cash component of the offer for the acquisition of the control of RCS and for other general corporate purposes.

Statement of reconciliation of the Parent's equity and profit and Group equity and profit

The **statement of reconciliation** of equity and profit of Cairo Communication S.p.A. and Group equity and profit can be analyzed as follows:

(€ millions)	Equity 31/12/2017	Profit for the period 2017
Financial statements of Cairo Communication S.p.A.	**258.8**	**7.3**
Elimination of the carrying amount of consolidated equity investments:		
Difference between carrying amount of investments and their equity value	(108.5)	
Effects of the purchase price allocation of RCS S.p.A.	154.0	4.6
Effects of the purchase price allocation of La7 S.p.A.	(15.6)	4.6
Share in consolidated companies' profit net of investment impairment losses		43.8
Allocation of consolidation differences		
RCS goodwill net of tax effects	114.2	
Other goodwill	7.2	
Elimination of intra-group profits net of income tax	(18.6)	0.2
Elimination of intra-group dividends		(8.5)
Consolidated financial statements of Cairo Communication	**391.6**	**52.0**

Main business segment operating results and related risk factors and strategic opportunities

MAGAZINE PUBLISHING CAIRO EDITORE

Cairo Editore - Cairo Publishing

Cairo Editore operates in the magazine publishing field through (i) weeklies “Settimanale DIPIU’”, “DIPIU’ TV”, and bi-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” and “NuovoTV”, “Nuovo e Nuovo TV Cucina” and “Enigmistica Più”, (ii) monthlies “For Men Magazine” and “Natural Style” and (iii) through its Editoriale Giorgio Mondadori division with monthlies “Bell’Italia”, “Bell’Europa”, “In Viaggio”, “Airone”, “Gardenia”, “Arte” and “Antiquariato”.

The results achieved by the Cairo Editore publishing segment in 2017 can be analyzed as follows:

Publishing (€ millions)	**31 December 2017**	**31 December 2016**
Operating revenue	90.1	97.4
Other income	2.9	2.5
Change in inventories	-	(0.2)
Total revenue	**93.0**	**99.8**
Production cost	(61.1)	(64.7)
Personnel expense	(19.7)	(19.8)
Gross operating profit (EBITDA)	**12.2**	**15.2**
Amortization, depreciation, provisions and impairment losses	(1.1)	(1.3)
EBIT	**11.1**	**14.0**
Income (loss) on investments	-	-
Net financial income	-	-
Pre-tax profit	**11.1**	**13.9**
Income tax	(3.4)	(4.8)
Profit for the year	**7.7**	**9.1**

In 2017, Cairo Editore strengthened the results of its titles, worked on improving the levels of efficiency reached in containing production, publishing and distribution costs, and continued to achieve positive results. Gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro 12.2 million and approximately Euro 11.1 million (Euro 15.2 million and Euro 14 million in 2016).

The Group weeklies reported high circulation results, with an average ADS weekly circulation in the January-December twelve-month period of 2017 of 453,626 copies for “Settimanale DIPIU”, 246,552 copies for “DIPIU’ TV”, 114,928 copies for “Settimanale DIPIU’ e DIPIU’TV Cucina”, 169,658 copies for “Diva e Donna”, 212,377 copies for “Settimanale Nuovo”, 116,607 copies for “F”, 108,303 copies for “TVMia”, 86,039 copies for “Settimanale Giallo”, 98,050 copies for “NuovoTV” and 56,804 copies for “Nuovo e Nuovo TV Cucina”, reaching a total of approximately 1.7 million average weekly 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 out of the ADS survey (average copies sold of “Enigmistica Più”), average weekly copies sold were approximately 1.8 million.

As far as circulation is concerned, the features of Cairo Editore titles and its strategy help maintain a strong lead over competitors in the current publishing market. Specifically:

- cover prices of the weeklies are lower, in some cases by far, than those of main competitors; this gap increases appeal and allows space for potential price increases, hence for increased profitability;
- sales are mostly over-the-counter (96%), with a minimum impact of revenue generated by gifts and sundry editorial material (approximately 2% on total publishing revenue, including advertising); Cairo Editore has opted to focus on the quality of its titles; in 2017, gross advertising revenue generated by Cairo Editore titles accounted for approximately 27% - an extremely low figure, therefore based to a lesser extent on the economic cycle - while the remaining 73% came from direct sales and subscriptions, proof of the high editorial quality of publications;
- weekly magazines, which account for approximately 87% of total 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 titles of its competitors.

The tables below analyze the circulation trend of weeklies in 2017 versus 2016:

Weeklies	Dipiu'	Dipiu' TV	Dipiu' e Dipiù TV Cucina	Diva e donna	TV Mia	Nuovo	Nuovo TV	Nuovo e Nuovo TV Cucina	F	Giallo
ADS 2017 average	453,626	246,552	114,928	169,658	108,303	212,377	98,050	56,804	116,607	86,039
ADS 2016 average	490,441	283,388	144,677	184,448	123,798	223,629	110,972	101,640	121,890	94,914

Monthlies	For Men Magazine	Natural Style	Bell'Italia	Bell'Euro-pa	In Viaggio	Airone	Gardenia
ADS average 2017	34,683	44,841	46,087	19,299	20,076	45,902	52,982
ADS average 2016	41,542	48,232	47,585	20,658	19,693	50,393	54,295

In 2018, Cairo Editore's strategy will continue to focus on the following elements: (i) the pivotal importance of the quality of products, (ii) supporting the circulation levels of its own publications, including through investments in print runs, communication and quality of editorial content, (iii) attention to costs in general, and production costs in particular, with a view towards continuous improvement of industrial, publishing and procurement conditions and processes, and (iv) continued extension and increase in quality of the product portfolio in order to capture the market segments with greater potential.

ADVERTISING

Looking at the advertising segment, in 2017 the Cairo Communication Group continued to operate as advertising broker - with its subsidiary Cairo Pubblicità - selling space in the print media for Cairo Editore and for Editoriale Genesis ("Prima Comunicazione" and "Uomini e Comunicazione"), for the sale of advertising space on TV for La7 and La7d, for Turner Broadcasting (Cartoon Network and Boomerang) and for La Presse (Torino Channel), on the Internet (Cartoon Network.it) and for the sale of stadium signage and space at the Olimpico in Turin for Torino FC.

The results achieved by Advertising in 2017 can be analyzed as follows:

Advertising (€ millions)	**31 December 2017**	**31 December 2016**
Gross operating revenue	173.1	173.7
Advertising agency discounts	(24.4)	(24.8)
Net operating revenue	**148.7**	**148.9**
Other income	0.8	0.6
Change in inventories	-	-
Total revenue	**149.5**	**149.5**
Production cost	(140.0)	(140.4)
Personnel expense	(9.1)	(9.0)
Gross operating profit (EBITDA)	**0.4**	**-**
Amortization, depreciation, provisions and impairment losses	(0.4)	(0.4)
EBIT	**0.0**	**(0.4)**
Income (loss) on investments	-	-
Net financial income	(0.4)	(0.2)
Pre-tax profit	**(0.4)**	**(0.6)**
Income tax	(0.4)	(0.1)
Non-controlling interests	-	-
Profit for the year	**(0.8)**	**(0.7)**

In 2017, gross advertising sales on La7 and La7d channels amounted to Euro 137.8 million (Euro 141.8 million in 2016). Advertising sales on Group titles amounted to Euro 26.5 million (Euro 27.9 million in 2016);

Gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 0.4 million and basically to breakeven (respectively to breakeven and to Euro -0.4 million in 2016).

TV PUBLISHING (La7)

The Group started operations in the TV field in 2013, following the 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), strengthening in the years that followed the results of the cost rationalization measures implemented.

The results achieved by TV Publishing (La7) in 2017 can be analyzed as follows:

TV publishing (€ millions)	**31 December 2017**	**31 December 2016**
Gross operating revenue	99.1	102.8
Other income	2.3	5.5
Change in inventories	-	-
Total revenue	**101.4**	**108.3**
Production cost	(60.0)	(71.6)
Personnel expense	(34.4)	(34.8)
Gross operating profit (EBITDA)	**7.0**	**1.8**
Amortization, depreciation, provisions and impairment losses	(10.1)	(8.5)
EBIT	**(3.0)**	**(6.6)**
Income (loss) on investments	-	-
Net financial income	0.2	0.5
Pre-tax profit	**(2.9)**	**(6.2)**
Income tax	2.1	4.9
Non-controlling interests	-	-
Profit for the year	**(0.8)**	**(1.3)**

In 2017, the TV publishing segment (La7) achieved positive gross operating profit (EBITDA) of approximately Euro 7 million, improving strongly versus the prior year (approximately Euro 1.8 million in 2016). Operating profit (EBIT) came to approximately Euro -3 million and benefited in the consolidated financial statements, with respect to the separate financial statements of La7 S.p.A., from lower amortization and depreciation of Euro 3.3 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 2016, operating profit (EBIT) had come to approximately Euro -6.6 million, benefiting in the consolidated financial statements from lower amortization and depreciation of Euro 5.4 million;

In 2017, La7's average all-day share was 2.88% and 3.37% in prime time (from 8:30 PM to 11:30 PM), with a high-quality target audience. La7d's share was 0.54% (0.47% in prime time). The audience figures of the channel's news and discussion programmes - such as the 8 PM newscast (5.3% from Monday to Friday), "Otto e mezzo" (5.7%), "Piazza Pulita" (4.3%), "Coffee Break" (3.9%), "Omnibus" (3.8%), "L'aria che tira" (5.2%), "Bersaglio Mobile" (3.2%), "Di martedì" (5%), "In Onda" (4.4%), "Miss Italia" (6.5%), "Propaganda Live" (6.5%), "Atlantide" (2.7%), and "Non è l'Arena" (6.5%) - were positive.

Revenue development initiatives are planned for La7, focused on (i) creating new programmes, (ii) maximizing audience potential on the La7d channel, (iii) the possible launch of new channels and strengthening digital presence.

The January-February period of 2018 saw a sharp rise in La7's average share in the "all-day" and "prime time" slots. Specifically, the "all-day" share in the first two months of 2018 stood at 3.28%, up by 9% versus the same period of 2017, while "prime time" stood at 4.42%, up by 24% versus the first two months of 2017.

RCS

As explained earlier, in 2016 the Group started operations in the daily newspaper publishing segment with the acquisition of the control of RCS.

RCS, both directly and indirectly through its subsidiaries, publishes and distributes - in Italy and Spain - daily newspapers and magazines (weeklies and monthlies), and is also involved in print media and online advertising sales, and in the distribution of editorial products at newsstands.

Specifically, in Italy RCS publishes the dailies *Corriere della Sera* and *La Gazzetta dello Sport*, as well as various weeklies and monthlies such as *Amica*, *Living*, *Style Magazine*, *Dove*, *Oggi*, *Io Donna*, *Sportweek*, *Sette* and *Abitare*.

In Spain, RCS operates through its subsidiary Unidad Editorial S.A., publisher of the dailies *El Mundo*, *Marca and Expansion*, as well as various magazines such as *Telva*, *YoDona*, *Marca Motor* and *Actualidad Económica.*

In Italy, RCS has also minor operations on the pay TV market through its subsidiary Digicast S.p.A. on the TV satellite channels *Lei*, *Dove*, *Caccia* and *Pesca*, and on the web TV channel of *Corriere della Sera* and *La Gazzetta dello Sport*.

In Spain, it is active with the leading national sports radio *Marca* and the web TV of El Mundo, and broadcasts the two digital TV channels *GOL Television* and *Discovery max* on the Veo multiplex.

RCS also organizes, through RCS Sport, major world sporting events (such as *Giro d'Italia*, the *Dubai Tour*, the *Milano City Marathon* and the *Color Run*), and is well-positioned as a partner in the creation and organization of events through RCS Live. In Spain, through its subsidiary Last Lap, RCS is involved in the organization of mass events.

RCS posted negative results prior to 2016, and an operational restructuring process is currently underway (aimed at restoring profitability). In 2016, profit amounted to Euro 3.5 million[5], marking a return to positive territory by the RCS Group, the first time since 2010.

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[5] RCS 2016 Annual Report

Mention should be made that RCS was consolidated in the Cairo Communication Group as from 1 September 2016. The consolidated income statement in 2016 includes only the RCS results of the September-December four-month period of 2016.

The results achieved by the RCS segment in 2017 can be analyzed as follows:

RCS (€ millions)	**31 December 2017** **(Twelve months)**	**31 December 2016** **(Four months)**
Gross operating revenue	943.6	359.6
Advertising agency discounts	(52.6)	(23.6)
Net operating revenue	**891.0**	**336.0**
Change in inventories	(0.3)	(1.1)
Other revenue and income	20.9	8.4
Total revenue	**911.6**	**343.3**
Production cost	(505.4)	(191.4)
Personnel expense	(258.1)	(86.3)
Income (expense) from investments measured at equity	2.1	1.7
Non-recurring income and expense	(1.8)	3.1
Gross operating profit (EBITDA)	**148.4**	**70.4**
Amortization, depreciation, provisions and impairment losses	(52.3)	(24.0)
EBIT	**96.0**	**46.3**
Income (loss) on investments	16.2	(0.2)
Net financial income	(24.4)	(9.2)
Pre-tax profit	**87.8**	**36.9**
Income tax	(9.4)	(10.7)
Non-controlling interests	(31.3)	(10.5)
Profit attributable to the owners of the parent	**47.1**	**15.7**

In 2017, in a persistently challenging market marked by uncertainty, RCS achieved - in the consolidated financial statements of Cairo Communication - gross operating profit (EBITDA) of approximately Euro 148.4 million[6] and operating profit (EBIT) of Euro 96.0 million[7], up by Euro 44.3 million[8] and Euro 60.6 million[8], respectively, versus 2016, in line with 2017 performance

[6] Mention should be made that RCS adopts a different definition of EBITDA from the one used by the Cairo Communication Group, as indicated in the above section "Alternative Performance Indicators". As a result of these differences, which lie in the provisions for risks and in the allowance for impairment, amounting in the period to Euro 10.2 million - EBITDA shown in the RCS 2017 Annual Report approved on 15 March 2018 amounted to Euro 138.2 million.

[7] As a result of the valuations made in the measurement of the fair value of assets/liabilities acquired in the business combination of RCS, Cairo Communication's consolidated financial statements recognized lower amortization on "intangible assets" in the amount of Euro 0.5 million. EBIT shown in the RCS Annual Report approved on 15 March 2018 amounted to Euro 95.6 million.

[8] Comparison based on the RCS Annual Report, approved on 15 March 2018 and available on the website www.rcsmediagroup.it.

targets, thanks mainly to the strong commitment towards cutting costs and pursuing opportunities to increase and develop revenue.

In 2017, consolidated net revenue achieved by RCS amounted to approximately Euro 891 million, [9] dropping by an overall Euro 72.5 million[8] versus 2016, due mainly to certain discontinuities, such as the termination in 2017 of a number of advertising sales contracts with third-party publishers (Euro -31.3 million), and to revenue related to sporting events in 2016, the European Football Championships and the Summer Olympics in particular (Euro -7.5 million). Net of these discontinuities, the change would have stood at Euro -33.7 million (approximately -3% versus 2016).

At circulation level, the dailies *Corriere della Sera*, *La Gazzetta dello Sport*, *Marca* and *Expansión* continue to lead their respective segments, while *El Mundo* is the second most popular general daily in Spain.

In Italy, *Corriere della Sera* sold an average of 310 thousand daily copies at end 2017, including digital copies (Internal Source). Total circulation of *La Gazzetta dello Sport* in 2017 came to an average of 183 thousand daily copies, including digital copies (Internal Source). Regarding the comparison with the market, the newsstand channel (channels required by law) outperformed the relevant market, *Corriere della Sera* in particular (-5.5% versus the market's -11.6%) (Source: ADS January-December).

Additionally, the main digital performance indicators show, in 2017, average unique browsers/month of the *corriere.it* website at 47 million, the mobile version of the website *Corriere Mobile* at 25.2 million average unique browsers/month, the *gazzetta.it* website at 29.6 million average unique browsers/month, and *Gazzetta Mobile* at 15.5 million average unique browsers/month (Source: Adobe Analytics).

The average daily circulation (Source OJD) of *El Mundo* and *Expansion* (including digital copies) amounted to 119 thousand and 23 thousand copies, respectively; copies of the sports daily *Marca* amounted to approximately 135 thousand, including digital copies (OJD).

On the web, average unique browsers/month (Source Omniture) of *elmundo.es* reached an average 49.7 million in 2017, while average unique browsers/week came to 3.5 million. At end 2017, *marca.com* reached 44.5 million average unique browsers/month, while average unique browsers/week came to 4.7 million. Average unique browsers/month of *expansión.com* were

[9] In the RCS Annual Report, amounting to Euro 895.8 million, due to the different classification of certain items.

10.5 million in 2017, while average unique browsers/week were 0.6 million. All three sites reported a sharp rise in accesses through mobile devices, which saw significant increases.

In 2017, net advertising revenue of the Newspapers Italy segment amounted to Euro 154.9 million, down by 0.7% versus 2016. Net of the effect on advertising sales deriving from sporting events in 2016, advertising revenue would increase by 3.1%. Total advertising sales for online media accounted for approximately 25% of total net advertising revenue for the segment versus 23.7% in 2016 on a like-for-like basis net of revenue from sporting events.

At 31 December 2017, the net financial position of RCS stood at Euro -287.4 million, improving by approximately Euro 78.7 million versus 31 December 2016, thanks to the positive cash flows of Euro 94 million from ordinary operations (source Management reporting), and to the gains cashed in from the minority interest held in Istituto Europeo di Oncologia (Euro 20 million), which more than offset outlays for technical investments (Euro 14.1 million) and non-recurring expense booked in prior years (Euro 16.3 million).

RCS is currently focusing on enhancing the value of editorial content, developing existing brands, and launching new projects, with a constant eye on cutting costs. Noteworthy points for *Corriere della Sera* were the remarkable advertising and readership figures achieved by *L'Economia*, the new Monday business add-on. *Corriere* readers were further indulged by the fully revamped *Sette*, the analysis news magazine, from end April out on newsstands on Thursdays.

19 September 2017 saw the launch of the new free weekly supplement *Buone Notizie – L'impresa del bene*, which offers an ethical and informational perspective on the non-profit world. *Buone Notizie* casts a weekly spotlight on associations, foundations, cooperatives, schools, research centres, and sports organizations, and will also cover the many companies that are increasingly seeking to do business driven by social responsibility, either directly or by promoting the activities of their staff. A further note to mention is the success of the fourth edition of *Tempo delle Donne,* the event held at the Milan Triennale under the aegis of *Corriere della Sera*.

The new local edition *Corriere Torino* was launched on 24 November 2017 under the editorial guide of Umberto Rocca. Comprehensive and wide-ranging, the newspaper was created to tell the story of the Piedmontese capital and show it in a new light, going beyond simply covering local stories.

Numerous initiatives also for *La Gazzetta dello Sport*, including the geolocation project, with a daily page on local football teams, and with *Grande Gazzetta* and its ten monthly releases starting from February. Additionally, the 100th edition of the Giro d'Italia was celebrated with the special initiative "*Sulle terre del Giro*", along with a dedicated 20-page section.

La Gazzetta dello Sport celebrated the 20th anniversary of the website *gazzetta.it*, offering its readers for twenty days a recollection of the best sporting events of the last twenty years, as well as editing on 15 September 2017 the section *Lo Sport del Futuro*, dedicated to the future of sport for the next 20 years.

Subsequently, on October 28 the new *SportWeek* was launched, featuring completely overhauled graphics and content and a larger format. The new features include a tighter relationship between paper and digital, with an increased presence of the new *SportWeek* on gazzetta.it and a greater use of social media to increase the engagement with readers.

The magazines area saw the new launch of *Oggi Enigmistica Settimanale* on 27 June 2017, recording a remarkable performance at newsstands.

The weekly *Oggi* delivered an excellent result, in particular with the strong improvement in circulation figures in the newsstand channel, both when sold individually and bundled with other publications of the Family segment, a brand extension of the *Oggi* brand. In 2017, the title achieved a 10.5% increase in circulation (sold both individually and bundled) versus 2016, with total publishing revenue up by Euro 0.7 million.

In Spain, Francisco Rosell Fernàndez was appointed new Editor-in-Chief of *El Mundo*, celebrating the 10,000th edition of the daily newspaper with a special issue, while *Expansiòn* celebrated its 31st anniversary. Furthermore, the Spanish daily *Marca* launched a new multimedia sports information portal in Mexico in partnership with *Claro,* and the special edition on green paper for the World Environment Day, in collaboration with WWF.

Additionally, a special edition of Marca was published on October 19, for the second consecutive year printed on pink paper: in order to support breast cancer research, 10% of every copy sold of that edition was donated to the Spanish Association against Cancer.

Thanks to these initiatives, the RCS profit in 2017 came to Euro 71.1 million, improving by Euro 67.6 million versus Euro 3.5 million in 2016.

NETWORK OPERATOR (CAIRO NETWORK)

As explained 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; the mux covers at least 94% of the national population, providing high-quality service levels.

With the implementation of the mux, the Cairo Communication Group has at its autonomous disposal a broadcasting capacity of approximately 22.4 Mbps versus the 7.2 Mbps provided by external operators until 31 December 2016.

January 2017 marked the start of the broadcasting of La7 channels on the mux. The remaining capacity could be used to broadcast new channels if the Cairo Communication Group were to launch any, and to provide third parties with broadcasting capacity.

IL TROVATORE

In 2017, Il Trovatore continued operations, mainly providing technological services to develop and maintain the online platforms of the Group's companies.

Alternative performance indicators

In this 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 represents a unit of measurement to assess Group and Parent operational performance, together with **EBIT**, and is calculated as follows:

Result from continuing operations, pre tax

+/- Net finance income

+/- Share in associates

EBIT - Operating profit

\+ Amortization & depreciation

\+ Bad debt impairment losses

\+ Provisions for risks

+ Income (expense) on investments measured at equity[10]

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

EBITDA (earnings before interest, taxes, depreciation and amortization) is not classified as an accounting measure under IFRS, therefore, the criteria adopted for its measurement may not be consistent among companies or different groups.

RCS defines EBITDA as operating profit (EBIT) before depreciation, amortization and impairment losses on fixed assets, and also includes income and expense from investments measured at equity.

The main differences between the two definitions of EBITDA lie in the provisions for risks and in the allowance for impairment, included in the EBITDA definition adopted by RCS, while they are excluded from the EBITDA definition adopted by Cairo Communication. Owing to the differences between EBITDA definitions adopted, in this Annual Report at 31 December 2017, consolidated EBITDA was determined consistently with the definition adopted by the Parent Cairo Communication.

The Cairo Communication Group also considers the **net financial position** (**net financial debt**) as a valid indicator of the Group's financial structure determined as a result of current and non-current financial liabilities, net of cash and cash equivalents and current financial assets.

Transactions with parents, subsidiaries and associates and subject to the control of the parents

Transactions in the year 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.

Information on transactions with related parties is disclosed in Note 37 to the consolidated financial statements and in Note 28 to the separate financial statements.

[10] Included following the consolidation of RCS

Main risks and uncertainties to which Cairo Communication S.p.A. and its Group are exposed

Risks associated with the general economic climate

The operating results, financial position and cash flows of the Cairo Communication Group may be influenced by various factors within the macro-economic environment, such as the increase or decrease of GNP, the level of consumer and corporate confidence, the advertising expenditure/GDP ratio, interest rate trends and cost of raw materials.

With the acquisition of the control of RCS, the Group activities are carried out mainly in Italy and Spain. Therefore, Group profits are exposed to risks caused by the economic cycle of these two countries.

In 2017, the general economic and financial climate continued to be marked by uncertainty.

Italy's economy in 2017 confirmed the upturn witnessed in 2016, with GDP growing by 1.5% (Source: ISTAT), lower than the European average. Surveys show a return to business confidence at pre-crisis levels. These assessments are corroborated by the faster pace of investment spending seen in the second part of the year (Source: Economic Bulletin - Bank of Italy).

In Spain, a market of operation for RCS through its subsidiary Unidad Editorial, GDP increased by 3.1% in 2017, slightly lower than in 2016 (3.3%), confirming the upswing of Gross Domestic Product for the fourth consecutive year (Source: INE)

Should this situation of uncertainty continue for some time, the operations, strategy and outlook for the Group may be impacted.

To challenge the tough market scenario, the Group implemented a series of measures to streamline costs and increase efficiency and effectiveness of the production, publishing and distribution processes - starting in previous periods and also continuing in 2017.

Risks associated with advertising and publishing market trends

The persisting short and medium-term economic uncertainty continued to impact negatively on the daily newspaper and magazine advertising market, slowing the pace of magazine sales.

In 2017, the Italian advertising market fell by 2.1%; the TV, magazine and daily newspaper advertising markets dropped by 1.6%, 6.2% and 7.7%, respectively. The online segment grew by 1.7% versus 2016 (AC Nielsen).

In Spain, where RCS operates through the subsidiary Unidad Editorial, the advertising sales market in 2017 progressed by 2% versus the same period of 2016 (i2p, Arce Media). Specifically, the daily newspaper and magazine market fell by 6.7% and 6.1%, respectively, versus 2016. Advertising sales on the Internet, instead, increased by 15.2%.

Regarding the advertising market, the print media is forecast to fall further in 2018 in Italy (source Nielsen) and in Spain (source I2P Arce Media). Internet, as well as TV, will continue to grow both in Italy and Spain.

The economic climate has slowed the pace of the sales of dailies and magazines.

On the Italian circulation front, the negative trend in print editions continued through 2017. Specifically, the main national generalist daily newspapers (with a circulation above 50 thousand copies) reported a 12.2% drop in circulation in 2017 (including digital copies), while the main sports newspapers fell by 6.9% (including digital copies) versus 2016 (ADS January-December 2017).

The same trend was seen in Spain, with daily newspaper sales down versus 2016. Cumulative figures on circulation at December 2017 (OJD) regarding generalist newspapers (generalist newspapers with a circulation above 60 thousand copies), business newspapers and sports newspapers indicate a drop of 9.3%, 3.3% and 9.9%, respectively.

Regarding the Italian circulation market of publications stated in ADS in the first ten months of 2017, the magazines market generally fell by approximately -6% versus the same period of 2016: monthlies lost 12% and weeklies 4% (Internal Source based on ADS data).

Advertising

The Cairo Communication Group is significantly exposed to advertising revenue trends, which are cyclical and directly related to general economic trends. Advertising sales are currently the main source of revenue for the TV publishing segment. La7 boasts an exceptional audience profile, particularly appealing in terms of advertising.

Considering the Cairo Editore magazine publishing segment, advertising revenue in 2017 accounted for 27% - an extremely low percentage, therefore based to a lesser extent on the economic cycle - while the remaining 73% was generated by distribution and subscription revenue, demonstrating the great publishing strength of advertising products. Regarding Cairo Editore titles, the remarkable sales volumes achieved, both in absolute terms and versus Cairo’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.

Regarding RCS, advertising represents almost half of total revenue.

Persisting global economic uncertainty and stalling growth on the Italian market could impact on advertising market prospects. Against this backdrop, any difficulty in maintaining or increasing its advertising revenue could impact on Group prospects, activities, operating results and cash flows.

Distribution

Regarding RCS, in addition to advertising, a large share of its other activities is represented by the sale of publishing products for a market that is undergoing a long-term phase of change in both Italy and Spain, marked by increasing integration with online communication systems. This transition could create tension between the circulation of paper products and the concurrent need to adopt appropriate development strategies. The current market situation could amplify these aspects, as has already partly occurred. Against this backdrop, any difficulty in maintaining or increasing the circulation of its paper products could impact on Group prospects, activities, operating results and cash flows.

Regarding distribution for Cairo Editore, the features of the products published by the Group as well as its strategy, are such as to build a significant competitive edge in the current publishing climate, as explained in the notes to the performance of the Cairo Editore magazine publishing segment.

The ability of the Cairo Communication Group to increase its revenue and pursue its growth and development targets, and maintain adequate levels of profitability, also depends on how successful it is in putting its industrial strategy into place, which is also based on the continued expansion and enrichment of its product portfolio in order to capture market segments with greater potential.

Should the Cairo Communication Group fail to pursue this strategy, the activities and prospects of the Group may be negatively influenced, with consequent negative effects on its operating results, financial position and cash flows.

<u>Risks associated with developments in the media segment</u>

The media segment has seen an increase in the level of penetration of new communication resources, in particular the Internet, and the new unencrypted theme channels on the digital terrestrial platform, together with technology innovations that may lead to changes in demand by consumers, who in future will probably request personalized content by even directly selecting the source. As a result, this may change the importance of the various media and audience distribution, leading to greater market fragmentation.

Whereas the development of the Internet may impact on the share of print media, mainly on dailies and to a much lesser extent on the weeklies published by the Cairo Communication Group, the growth of the Internet and of digital theme television may impact on the generalist TV audience. Any development of new TV channels by the Group may allow it to take advantage of this situation.

Specifically, Cairo Communication has identified the following main market trends:

- the demand for entertainment content continues to grow, both on traditional media and on the new platforms;
- in the generalist commercial television segment, the convergence of distribution platforms may, on the one hand, create development opportunities, but, on the other, carry a risk of audience fragmentation and an increase in the spectrum of platforms available for the use of TV content (satellite, Internet, mobile), engendering a more complex competitive environment;
- technological advancements have gradually changed the way content is used, towards more interactive/on demand media, enabling younger audiences to switch to more personalized user options.

The Group constantly monitors the level of penetration of new resources as well as changes in the business model related to the distribution of content available, to assess the opportunity to develop the various distribution platforms.

The current publishing scenario, in addition to the negative general economic cycle, may lead to business combinations of publishing groups, with a consequent change in the market structures.

Developments in the regulatory framework are also continually monitored for the media segment and their disclosure within the Group is ensured.

Risks associated with Management and "key staff"

The Group's success depends on the talents of its executive Directors and other members of Management to efficiently manage the Group and the individual business segments.

Editors and TV personalities, too, have a significant role in the titles they head and the programmes they host.

The loss of the services of an executive Director, editor, TV personality or other key resource without an appropriate substitute, as well as the difficulty in attracting and retaining new and qualified resources, may impact negatively on the prospects, activities, operating and financial results of the Group.

Risks associated with retaining the value of the brands of the Group titles and TV programmes

The value of Group brands and TV programmes must be continuously protected by maintaining the current level of quality and innovation.

The Group publishing strategy has always been focused on the quality of its products, driven by the efforts of Management and the editors. Under the agreements with the directors, a significant part of their remuneration is linked to the results of distribution, audience ratings and/or sale of advertising space of the titles and TV programmes.

Brands play a crucial role in the development of Group activities for RCS too, including in the new digital environments. Events that harm the prestige of the brands could result in losses of profit and compromise the integration process with online communications systems.

Any difficulties that the Cairo Communication Group has in maintaining the value of its publication or programme brands, or any changes in the audience preferences, could reduce the appeal of Cairo Communication Group products, with resulting negative impacts on the operating results, financial position and cash flows of the Cairo Communication Group.

Risks associated with business with suppliers and employees

A number of the production processes of the Cairo Communication Group, particularly magazine printing and use of broadcasting capacity in the TV publishing segment, are outsourced. The outsourcing of production processes requires close collaboration and careful monitoring of suppliers to ensure and preserve the quality of the products carried out with the help of external suppliers. This outsourcing may provide operational benefits in terms of flexibility, efficiency and cost reductions, but means that the Cairo Communication Group has to trust the ability of its suppliers to achieve and maintain the quality standards required by the Cairo Communication Group.

Regarding RCS, regarding relations with employees, any absenteeism from work or other expressions of conflict could lead to interruptions, and if they continue over time, disruptions to the extent of affecting the operating results of the Group.

The Group's main raw material is paper. By reducing the profitability margins of paper mills, the macroeconomic trend could bring about the closure of some of these mills, accentuating the oligopolistic nature of the market and generating price tensions and procurement difficulties, specifically for pink paper.

Additionally, the RCS Group activities that relate to sport, and more specifically, to the organization of sporting events, are generally based on contractual license and sponsorship agreements, and if they are not renewed upon expiry, or if they are renewed at less favorable terms, this could have negative effects on the operating results, financial position and cash flows of the Group.

Risks associated with legal and regulatory developments

The Cairo Communication Group operates in a number of heavily-regulated business areas.

La7's activity is mainly governed by Legislative Decree no. 177 of 31 July 2005 as amended by Legislative Decree no. 44 of 15 March 2010 (hereinafter Legislative Decree no. 177/05 as amended, also called "Consolidated Act"), which sets the general principles for the provision of audiovisual and radio media services.

Cairo Network works as a network operator on the basis of the Mux license of use issued by the Ministry of Economic Development on 31 July 2014, reg. DGSCERP/111/48081. The role of network operator carried out by Cairo Network is subject to extensive regulation at both national and EU level. Radio-television broadcasters are subject to regulations aimed at protecting people and the environment from exposure to electromagnetic fields.

Since, as mentioned above, a qualified operator was engaged to create and manage the network in full service mode, who made commitments and guarantees that Cairo Communication considered to be adequate to ensure compliance with applicable regulations, any breaches of said regulations could result in sanctions that could also include interrupting transmission, which could have negative effects on the operating results and financial position of the Cairo Communication Group.

Article 1, paragraph 1026 and ensuing paragraphs, of the 2018 Italian Budget (Law no. 205 of 2017) introduced specific provisions for terrestrial TV operators to release 694-790 MHz frequencies ("700 band" – corresponding to channels 49-60) to telephone operators and for the consequent reorganization of the user rights of existing television operators over the remaining television spectrum.

The law states, among other things, that

- by 30 September 2018 the Ministry of Economic Development will assign the user rights to the 700 band to electronic communications operators, to be available starting 1 July 2022. The 700 band frequencies must therefore be completely released by television operators no later than 30 June 2022;
- no later than 31 May 2018, Agcom will approve the new National Frequency Allocation Plan (PNAF) and by 30 June 2018 the Ministry of Economic Development will set the calendar (the "Roadmap") for the progressive release of 700 band frequencies by all network operators holding the relevant user rights nationally and locally. This process will be divided into phases with different timings and procedures for local and national operators, with the early release of some frequencies currently assigned to national operators, and the complete release of all frequencies in the 700 band by 30 June 2022.

Following the release of the 700 band, the UHF band frequencies that will remain internationally allocated to terrestrial television broadcasting will be channels 21 to 48. In view of bilateral agreements with radio-electrically bordering countries signed at the end of 2017, it is forecast that 15 muxes of frequencies will be available, fully coordinated with the foreign countries throughout national territory (14 in the UHF band and 1 in the VHF band), to be assigned partly to local operators and partly to national operators. As a result, the number of national muxes will have to be reduced from the current 20 to significantly fewer. The Budget also stated that national frequency muxes must adopt the DVB-T2 digital terrestrial standard, with a transitional conversion of the user rights to national frequency muxes into broadcasting capacity user rights. Agcom will define the conversion criteria by 30 September 2018, so that the user rights to national muxes can be reallocated.

The MISE is completing negotiations and concluding international agreements. Over the coming months, Agcom is expected to hold public consultations on the PNAF and the criteria for the conversion and reallocation of the remaining muxes to television operators. Similarly, the MISE is required to hold a public consultation on the Roadmap for the release of frequencies during the transitional period.

The effect of the future reorganization of the television band cannot currently be predicted with certainty. Cairo Network has already begun discussions with the relevant public authorities.

The granting of television frequencies to Cairo Network has a backstory and features that are quite different from the rest of the Italian television system. In fact, Cairo Network is the only national operator to have won 20-year user rights to a mux through a competitive, paid-for procedure, as a new, very recent, entrant (2014); this fact will be represented to the relevant authorities, so that the user rights do not undergo substantial changes in the refarming process. Additionally, the awarding follows a tender called to overcome the Community infringement procedure, in the context of which the above international compatibility had already been taken into account.

The Cairo Network mux currently allows the use of channel 25 across much of Italy, except for Liguria, Tuscany, Umbria, Sardinia and some of Lazio, where the allocated channel is 59 (in the 700 band). Replacement of this channel with a frequency that has equivalent coverage is expressly provided for.

In view of the new frequency structure, the law also requires the automatic digital terrestrial TV channel numbering plan to be updated, which should be drawn up by Agcom no later than 31 May 2019, together with the procedures for allocating the numbers.

RCS also operates in a complex regulatory environment in both Italy and abroad. Developments in reference regulations involving the introduction of new legal specifications or the amendment of current laws could have significant effects on the Group asset portfolio, as well as on corporate governance and on internal compliance processes, which may work against the economic need to simplify administrative processes and improve the quality of reporting in support of the business.

Risks associated with the measurement of intangible assets

The consolidated balance sheet of RCS contains a significant set of intangible assets (Euro 947 million at 31 December 2017).

As explained in the relating note on the "Accounting of the acquisition of RCS under IFRS 3" (Note 15 to the consolidated financial statements), the measurement of the fair value of the liabilities acquired in the business combination of RCS resulted in further intangible assets with indefinite and finite useful life. Specifically, the process saw the recording (replacing the provisionally booked "RCS Group consolidation difference" and goodwill amounting to Euro

39.1 million previously recognized at 31 December 2016) of (i) previously unrecognized intangible assets (mainly titles/trademarks) of Euro 407.8 million, Euro 348.8 million of which with indefinite useful life, and Euro 59 million with finite life, and (ii) goodwill of Euro 191.4 million, determined using the “full goodwill” method.

At 31 December 2017, the Group held intangible assets for a total of Euro 1,008 million.

Intangible assets should be regularly subject to measurement, in accordance with international accounting standards, in order to verify their recoverable carrying amount and ensure their consistency with the carrying amounts in the financial statements (impairment test).

With regard to the Cairo Network mux, the transmission of the terrestrial radio television signal is, to date, the most common transmission system used at national level. However, any increase in the distribution of alternative transmission means (for example satellite, cable or Internet) could lead to a reduction in demand for transmission capacity, and therefore make it harder for the Cairo Communication Group to offer third parties the mux bandwidth it does not use for its own television activities, with negative effects on the operating results and financial position of the Cairo Communication Group.

Risks associated with extraordinary transactions

In 2016, without prejudice to the equity and legal independence of Cairo Communication and of RCS, Cairo Communication acquired control of RCS, now part of the scope of consolidation of Cairo Communication.

RCS had posted negative results from 2011 to 2015, implementing from 2016 an operational restructuring process (aimed at restoring profitability).

In 2016, RCS achieved a profit of Euro 3.5 million[11], marking a return to positive territory, the first time since 2010. In 2017, it achieved a consolidated profit of Euro 71.1[11] million (in the RCS 2017 Annual Report).

The RCS relaunch plan envisages, inter alia, a programme to reduce costs and achieve full potential for revenue growth, in order to allow RCS to improve its financial and income situation.

However, given the adverse macroeconomic environment, failure to achieve or partial achievement of the targets set by the Cairo Communication business plan and/or in the event these targets may take longer than expected, could also result in adverse effects on the

[11] RCS 2017 Annual Report

profitability of the Cairo Communication Group and on its balance sheet, income statement and financial position.

Risks associated with litigation

Due to the nature of its business, the Cairo Communication Group is subject to the risk of litigation in the performance of its activities. The Cairo Communication Group monitors the development of these disputes, including with the help of external consultants, and will set aside the amounts needed to deal with the disputes in place according to how likely they are to lose.

The notes on "*other information*" (Note 36 to the consolidated financial statements) contain information on a number of cases of litigation. The evaluation of potential legal and tax liabilities, which requires the Company to use estimates and assumptions, is based on forecasts made by the Directors, following opinions expressed by the Company's legal and tax advisers on the probable cost that is reasonably considered to be incurred. Actual results may vary from these estimates.

Mention should be made that, because of its business activities, the Cairo Communication Group is involved in certain civil and criminal disputes for defamation. Regarding the disputes for press defamation, on the basis of the experience of the Cairo Communication Group, for the cases where the Cairo Communication Group companies have lost, these proceedings are normally settled by paying compensation for smaller amounts than the original amounts claimed. Moreover, La7 has an insurance policy that covers professional responsibility for television activity.

Financial risks

The Group manages capital structure and financial risks consistent with its asset structure, in order to maintain adequate and consistent credit ratings and capital ratio levels, taking account of the current credit availability in the Italian system.

The notes on "Information on financial risks" (Note 38 to the consolidated financial statements) contain information on liquidity risk, interest rate risk and credit risk.

Treasury shares

Movements in Cairo Communication treasury shares are disclosed in Note 19 to the separate financial statements of the Parent Company.

Regarding RCS, at 31 December 2017, there were no. 4,575,114 treasury shares in portfolio, at an average carrying amount of Euro 5.9 per share, corresponding to a total of 0.877% of the entire share capital.

Stock Options

Cairo Communication has no current stock option plans at this time.

Shares held by directors, statutory auditors and general managers

Shares held directly by Directors, Statutory Auditors and General Managers are illustrated in the Remuneration Report prepared pursuant to art. 123-ter of the TUF.

Other information

Research and development activities

There are no research and development activities to report having a significant effect on the performance of the Company or the Group.

Human resources

By the nature of the services it offers to the community, human resources form a critical factor for the success of the Cairo Communication Group. The enhancement of staff, the development of skills and the recognition of achievements and responsibilities are the principles underpinning personnel management, from the selection phase, which is facilitated by the high degree of the Group’s visibility and its ability to attract personnel.

Accordingly, the Group's main objective is to continually enhance human capital, developing existing skills, with a view to increasing professional qualities and creating the best conditions to ensure team spirit, motivation and participation in the workplace, in order to reinforce the shared feeling of belonging to a constantly expanding and leading publishing Group.

The breakdown of personnel at 31 December 2017 can be analyzed as follows, distinguishing between the Cairo Communication Group (on a like-for-like basis with 2016) and RCS, split up further by gender:

	CAIRO LIKE-FOR-LIKE BASIS		RCS		TOTAL
	MEN	WOMEN	MEN	WOMEN	
Senior managers	28	2	60	18	108
Editors	5	2	32	12	51
Managers	48	31	145	114	338
Employees	207	213	640	819	1,879
Blue-collar workers	0	1	214	21	236
Journalists and freelance	99	135	760	486	1,480
TOTAL	**387**	**384**	**1,851**	**1,470**	**4,092**

The breakdown of employees between Italy and abroad, split up further by gender, can be analyzed as follows:

	ITALY		ABROAD		TOTAL
	MEN	WOMEN	MEN	WOMEN	
Senior managers	77	14	11	6	108
Editors	31	9	6	5	51
Managers	149	114	44	31	338
Employees	541	639	306	393	1,879
Blue-collar workers	181	15	33	7	236
Journalists and freelance	549	419	310	202	1,480
TOTAL	**1,528**	**1,210**	**710**	**644**	**4,092**

Regarding the Cairo Communication Group on a like-for-like basis, the exact headcount at 31 December 2017 (771) is 5 units lower than the figure at 31 December 2016.

Specifically, turnover versus 2016 can be analyzed as follows:

Description	01/01/2017	Recruitments	Terminations	Advancements	31/12/2017
Open-ended contracts	**724**	10	(11)	1	**724**
Senior managers	**30**	1	(1)	(1)	**29**
Managers	**79**	-	-	-	**79**
Employees	**397**	7	(4)	4	**404**
Journalists and freelance	**218**	2	(6)	(2)	**212**
Fixed-term contracts	**52**	132	(136)	(1)	**47**
Senior managers	**1**	-	(1)	1	**1**
Managers	**-**	-	-	-	**-**
Employees	**23**	71	(76)	(2)	**16**
Journalists and freelance	**26**	59	(56)	-	**29**
Blue-collar workers	**2**	2	(3)	-	**1**
Grand total	**776**	**142**	**(147)**	**-**	**771**

Additionally, most of the employees work in the TV segment (457, 59%), followed by the magazine and book publishing segment (219, 28%). The advertising segment employs 93 people and draws on a sales force of approximately 100 agents (direct and indirect) who are coordinated by senior sales managers who, together with their staff, also ensure coordination with the editors and the promotion of special initiatives.

In the year under review, regarding the Cairo Communication Group on a like-for-like basis - only one work-related accident occurred, with no cases of occupational diseases reported.

Regarding RCS, the exact headcount at 31 December 2017 (3,321) is 78 units lower than the figure at 31 December 2016.

In 2017, an average of 749 people worked in Italy under solidarity arrangements, with a reduction in working hours up to a maximum of 20% (an average of 83 journalists for the publication La Gazzetta dello Sport, and 666 other non-editorial staff), and an average of 134 journalists were placed in the extraordinary redundancy fund (CIGS) up to a maximum of 25% in the Magazines Italy segment (including Sfera).

The exact headcount broken down by geographical segment is shown below.

	Italy Dec-31		Spain Dec-31		Other countries Dec-31		Total Dec-31	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Executives, middle managers and white collars	1,005	1,058	738	739	53	57	1,796	1,854
Publication directors and journalists	767	769	521	541	2	2	1,290	1,312
Blue collars	195	192	40	41	0	0	235	233
Consolidated total	**1,967**	**2,019**	**1,299**	**1,321**	**55**	**59**	**3,321**	**3,399**

Employees working in the Group’s foreign operations, amounting to 1,354 units, accounted for approximately 41% of the Group’s average total at December 2017. As regards trade-union relations in Italy, during 2017 the trade-union agreements relating to *Corriere della Sera* and *Gazzetta dello Sport* reached their conclusion.

Corriere della Sera closed the rotating extraordinary redundancy fund (CIGS) for early retirement, against the background of the change in the requirements of Law 416, which raised the minimum retirement age from 58 to 60 years. *Gazzetta dello Sport* completed the two-year solidarity period in July 2017, moving to a subsequent agreement reviewing the level-two (company-wide) contracts. The closure of the union agreements was accompanied by forecasts of increased productivity linked to the launch of new publishing projects for both newspapers.

The crisis situation involving the rotating extraordinary redundancy fund (CIGS) for early retirement at Group magazines will instead close in 2018, so in 2017 it was stable with approximately 20% of the entire population in the CIGS scheme.

As regards white-collar staff at RCS MediaGroup, in late July 2017 an agreement was signed to continue the "defensive solidarity agreement" that had expired after two years and was extended to 31 December 2017 with different percentages depending on the various divisions/departments.

At Unidad Editorial, the first company-wide collective agreement was signed in 2017. This set out a common regulatory framework for all companies of the Spanish group on all work-related issues that could be addressed in a single mechanism, including a system of variable remuneration for all employees connected to the achievement of company targets (EBITDA).

Further agreements were reached with workers' legal representatives at each company with a view to regulating all matters not dealt with in the above common regulatory framework, concerning remuneration and organization of working hours.

Lastly, the RCS Group saw 37 accidents in the workplace during the year as well as 1 death during work-related travel.

Environment

The Cairo Communication Group, with regard to its traditional sectors - Cairo Editore, advertising agency, La7, Il Trovatore - has outsourced its production processes to carry out its activities. Therefore, there are no relevant environmental aspects.

Regarding the activities of the network operator, Cairo Network, radio-television broadcasters are subject to regulations aimed at protecting people and the environment from exposure to electromagnetic fields. As explained above, the creation and management of the network was granted in full service mode to a qualified operator in the sector, who took on commitments and guarantees judged by Cairo Communication to be adequate to ensure compliance with applicable regulations.

RCS, which prints dailies in Italy at its production centers in Pessano, Rome and Padua, continued with its commitment to environmental matters in 2017, which had already been developed in past years, with a view towards optimizing these resources in all company processes. The processes involved were not only those more strictly related to production, but also those present in "non-core" areas, such as office space management.

Lastly, mention should be made that both the Cairo Communication Group and the RCS Group have prepared a specific non-financial statement for 2017, in accordance with the relevant legislation, to which reference is made for further information on such issues as human resources, health and safety and the environment.

Report on corporate governance and ownership structure (Article 123-bis of Legislative Decree no. 58 of 24 February 1998)

The Report on corporate governance and ownership structure, containing the information on compliance by Cairo Communication S.p.A. with the Corporate Governance Code for Listed Companies promoted by Borsa Italiana S.p.A., and the other information pursuant to paragraphs 1 and 2 of article 123-*bis* of Legislative Decree no. 58 of 24 February 1998, is published in accordance with the time limits of law also on the Company's website - Governance section.

Consolidated non-financial statement at 31 December 2017

The Consolidated Non-Financial Statement (hereinafter also the "NFS") for 2017, drawn up in compliance with the requirements of articles 3 and 4 of Legislative Decree no. 254/16, which aims to provide an overview of the policies, main risks and management criteria relating to the sustainability issues relevant to the Cairo Communication Group (hereinafter also the "Group"), is published in accordance with the time limits of law, also on the Company's website - Governance section.

Privacy

Regarding privacy regulations, Cairo Communication and Group companies update the Personal Data Policy Document, which establishes treatment followed, resources subject to security measures, risks, rules (physical and logical measures, and security organizational measures) and the relating training plan.

In previous years, technical and organizational measures and methods had been put in place - integrating those already operational where necessary – regarding storage of the identifying details of system administrators and verification of work performed, in order to guarantee the monitoring of their work.

The Group is working to carry out all the necessary checks and assessments to come into line with Regulation (EU) 2016/679 of the European Parliament and of the Council on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (the "General Data Protection Regulation"). The Regulation will be directly effective in all EU member states from 25 May 2018. All companies must therefore adapt their organizational structures and reorganize their activities relating to data processing by that date, to ensure that they are in line with the new EU regulatory framework.

Events after the reporting period and business outlook

Against a persistently uncertain backdrop, in 2017:

- RCS continued its relaunch, delivering a strong growth in margins versus the prior year (with a profit of Euro 71.1[12] million), in line with 2017 performance targets, and reduced its net financial debt by Euro 78.7 million, down to Euro 287.4 million. The results of RCS contributed significantly to the growth of the Group's revenue and margins in 2017;
- the TV publishing segment (La7) achieved positive gross operating profit of Euro 7 million, up sharply versus 2016 (Euro 1.8 million);
- the magazine publishing segment Cairo Editore posted positive results, achieved high circulation levels of the publications, and continued to work on improving the levels of efficiency reached in containing costs (production, publishing and distribution).

In 2018, the Cairo Communication Group, with regard to the scope of its traditional activities, will continue to:

- pursue the development of its Cairo Editore publishing and advertising sales segments, for Cairo Editore, continuing its strategy aimed at attracting market segments with greater potential and strengthening the results of its publications. 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 towards developing its activities in the TV publishing segment, forecast to achieve a positive gross operating profit (EBITDA) also in 2018.

Regarding RCS, on the approval of the 2017 Annual Report on 15 March 2018, its directors announced that in light

of the actions already implemented and those planned to maintain and develop revenue and to continue pursuing operating efficiency, in the absence of events unforeseeable at this time, RCS believes it can repeat in 2018 the growth in gross operating profit and cash flows from current operations in 2017, which would allow it to reduce financial debt below Euro 200 million at end 2018. The directors of RCS also resolved to submit a proposal to the Shareholders' Meeting, inter alia, to reduce the share capital to cover the residual prior-years' losses carried

[12] Amounts and comparisons based on the RCS 2017 Annual Report, approved on 15 March 2018

forward and resulting from the separate financial statements at 31 December 2017. The proposal is intended to enable RCS to return in the future to distributing profit, if any, for the year, allowing shareholders to benefit from the turnaround already reflected in the results achieved in 2017.

Developments in the overall economic climate and in the core segments could, however, affect the full achievement of these targets.

For the Board of Directors

Chairman Urbano Cairo

Shareholders,

We invite you to approve the separate financial statements as at and for the year ended 31 December 2017 and the accompanying reports, and we propose the distribution of a dividend of Euro 0.10 per share, gross of taxes.

Shareholders are invited:

- to approve the separate financial statements as at and for the year ended 31 December 2017, which show a profit for the year of Euro 7,306,051.06;
  - allocating Euro 231,082.16 to the legal reserve,
  - resolving on the proposal to distribute to shareholders a dividend of Euro 0.10 per share, gross of taxes, for each share entitled to receive profit distributions, with the exception of treasury shares held by the Company on the date prior to the record date pursuant to art. 83-*terdecies* of the TUF, distributing the remainder of the profit for the year, equal to Euro 7,074,968.90 and drawing on the share premium reserve for the difference of Euro 6,366,690.90.

If approved by the Shareholders, the dividend of Euro 0.10 per share will be made payable on 16 May 2018 (record date pursuant to art. 83-terdecies of the TUF: 15 May 2018), prior to detachment of coupon no. 12 on 14 May 2018.

For the Board of Directors

Chairman Urbano Cairo

CAIROCOMMUNICATION

Consolidated Financial Statements and explanatory notes

Consolidated income statement at 31 December 2017

€ millions	Notes	31 December 2017	31 December 2016
Revenue	1	1,109.4	566.1
Other revenue and income	2	26.1	17.2
Change in inventory of finished products	3	(0.3)	(1.2)
Raw materials, consumables and supplies	4	(107.2)	(57.0)
Services	5	(462.8)	(256.5)
Use of third-party assets	6	(60.9)	(30.3)
Personnel expense	7	(321.4)	(147.5)
Income (expense) from investments measured at equity	18	2.1	1.7
Amortization, depreciation, provisions and impairment losses	8	(66.1)	(34.1)
Other operating costs	9	(16.2)	(7.0)
EBIT		**102.7**	**51.5**
Income (expense) on investments	10	16.2	-
Net financial income (expense)	11	(24.8)	(9.2)
Pre-tax profit		**94.1**	**42.3**
Income tax	12	(10.8)	(10.3)
Profit from continuing operations		**83.3**	**32.0**
Loss from discontinued operations		**-**	**-**
Profit for the year		**83.3**	**32.0**
- Owners of the parent		52.0	21.5
- Non-controlling interests - continuing operations		31.3	10.5
		83.3	**32.0**
Earnings per share (Euro)			
- Earnings per share - continuing and discontinued operations	14	0.387	0.160
- Earnings per share - continuing operations	14	0.387	0.160

Consolidated statement of comprehensive income at 31 December 2017

€ millions	31 December 2017	31 December 2016
Profit for the year	**83.3**	**32.0**
Reclassifiable items of the comprehensive income statement		
Gains (losses) from the translation of financial statements denominated in foreign currencies	-	(0.1)
Reclassification of profit (loss) from translation of financial statements in foreign currencies		0.2
Gains (losses) on cash flow hedges	(0.2)	0.1
Reclassification of profit (loss) on cash flow hedges	3.6	1.4
Tax effect	(0.8)	(0.4)
Non-reclassifiable items of the comprehensive income statement		
Actuarial profit (loss) from defined benefit plans	(0.4)	(1.5)
Tax effect	0.1	0.4
Total comprehensive income for the period	**85.6**	**32.1**
- Owners of the parent	53.2	21.5
- Non-controlling interests - continuing operations	32.4	10.6
	85.6	**32.1**

Consolidated statement of financial position at 31 December 2017

Assets € millions	Notes	31 December 2017	31 December 2016
Property, investment property, plant and equipment	16	97.7	111.4
Intangible assets	17	1,008.2	1,017.8
Investments	18	45.9	53.6
Non-current financial receivables	19	3.8	4.4
Other non-current assets	20	15.3	15.5
Deferred tax assets	21	113.3	126.2
Total non-current assets		**1,284.2**	**1,328.9**
Inventory	22	18.2	20.3
Trade receivables	23	293.2	316.1
Receivables from parents, associates and affiliates	24	18.7	20.9
Sundry receivables and other current assets	25	38.9	48.8
Other current financial assets	19	0.9	1.2
Cash and cash equivalents	26	128.1	124.8
Total current assets		**498.0**	**532.1**
Total assets		**1,782.2**	**1,861.0**

Equity and liabilities	**Notes**	**31 December 2017**	**31 December 2016**
Share capital		7.0	7.0
Share premium reserve		242.9	242.9
Prior-year earnings (losses) and other reserves		89.7	73.5
Profit for the year		52.0	21.4
Equity attributable to the owners of the parent		**391.6**	**344.8**
Non-controlling interests' share capital and reserves		**250.8**	**221.0**
Total equity	27	**642.4**	**565.8**
Non-current financial payables and liabilities	28	319.1	368.5
Post-employment benefits	29	51.6	53.3
Provisions for non-current risks and charges	30	14.9	36.3
Deferred tax liabilities	30	169.7	177.6
Other non-current liabilities	31	0.9	3.3
Total non-current liabilities		**556.2**	**639.0**
Current financial payables and liabilities	32	73.0	110.1
Trade payables	33	307.7	349.6
Payables to parents, associates and affiliates	34	17.2	20.8
Tax liabilities	35	16.8	16.4
Current portion of provisions for risks and charges	29	54.4	44.6
Sundry payables and other current liabilities	36	114.5	114.7
Total current liabilities		**583.6**	**656.2**
Total liabilities		**1,139.8**	**1,295.2**
Total equity and liabilities		**1,782.2**	**1,861.0**

Consolidated statement of cash flows

€ millions	31 December 2017	31 December 2016
CASH AND CASH EQUIVALENTS	**124.8**	**125.8**
OPERATIONS		
Profit	83.3	32.0
Amortization/Depreciation	54.9	24.9
Income (expense) on investments	(18.3)	0
Net financial income	24.8	9.2
Dividends from investees measured at equity	7.1	0
Income tax	10.8	10.3
Change in provision for post-employment benefits	(2.2)	0.9
Change in provisions for risks and charges	(4.7)	(2.7)
Cash flow from operations before changes in working capital	**155.7**	**74.5**
(Increase) decrease in trade and other receivables	34.5	19.0
Increase (decrease) in trade and other payables	(66.4)	(12.7)
(Increase) decrease in inventory	2.1	2.9
TOTAL CASH FLOW FROM OPERATIONS	**125.9**	**83.7**
Income tax received (paid)	(1.5)	(18.9)
Financial charges paid	(26.9)	(9.0)
TOTAL CASH FLOW FROM OPERATIONS (A)	**97.5**	**55.9**
INVESTING ACTIVITIES		
(Acquisition) net disposals of PPE and intangible assets	(27.0)	(15.2)
Cash component of consideration recognized in the acquisition of the investment in RCS MediaGroup, net of cash acquired	0.0	(59.3)
Proceeds from sale of equity investment	18.1	0.0
Net increase in other non-current assets	0.3	(0.5)
NET CASH FLOW USED IN INVESTING ACTIVITIES (B)	**(8.7)**	**(75.0)**
Dividends paid	(6.7)	(15.7)
Increase (decrease) in financial payables	(75.5)	37.9
Increase (decrease) in non-controlling interests' share capital and reserves	(1.5)	0.0
Other changes in equity	(1.9)	(4.1)
NET CASH FLOW USED IN FINANCING ACTIVITIES (C)	**(85.6)**	**18.1**
CASH FLOW FOR THE PERIOD (A)+(B)+(C)	**3.3**	**(1.0)**
NET CASH AND CASH EQUIVALENTS CLOSING BALANCE	**128.1**	**124.8**
The main items of the consolidation of RCS MediaGroup S.p.A. at 31 August 2016 are:		
Tangible and intangible assets		(1,075.0)
Investments and other non-current assets		(71.3)
Deferred tax assets		(128.5)
Inventories		(20.1)
Trade receivables and other current assets		(301.3)
Provisions for risks and charges		232.6
Post-employment benefits		38.9
Financial liabilities		420.7
Trade payables and other liabilities		407.3
Non-controlling interests share capital and reserves		210.4
Capital increase for the public exchange offer with RCS Mediagroup S.p.A. shares		227.0
Cash component of consideration recognized in the acquisition of the investment in RCS MediaGroup, net of cash acquired		**(59.3)**

Consolidated Statement of changes in equity

€ millions	Share capital	Share premium reserve	Prior-year earnings (losses) and other reserves	Profit for the year	Equity attributable to the owners of the parent	Non-controlling interests' share capital and reserves	Total
Balance at 31 December 2015	**4.1**	**30.5**	**70.5**	**11.1**	**116.2**	**0.1**	**116.3**
Allocation of profit			11.1	(11.1)	**0.0**		**0.0**
Dividend distribution		(7.6)	(8.1)		**(15.7)**		**(15.7)**
Share capital increase	2.9	224.1			**227.0**		**227.0**
Ancillary costs to the capital increase net of the tax effect		(4.1)			**(4.1)**		**(4.1)**
Change in the scope of consolidation					**0.0**	33.1	**33.1**
Other movements					**0.0**		**0.0**
Total comprehensive income for the year				20.2	**20.2**	9.8	**30.0**
Balance at 31 December 2016	**7.0**	**242.9**	**73.5**	**20.2**	**343.6**	**43.0**	**386.6**
Effects from the completion of the purchase price allocation of RCS				1.2	1.2	178.0	**179.2**
Adjusted balance at 31 December 2016	**7.0**	**242.9**	**73.5**	**21.4**	**344.8**	**221.0**	**565.8**
Allocation of profit			21.4	(21.4)	**0.0**		**0.0**
Dividend distribution			(6.7)		**(6.7)**		**(6.7)**
Other movements			0.3		**0.3**	(1.5)	**(1.2)**
Reclassifiable items of the comprehensive income statement			1.2	(1.2)	**0.0**	(1.1)	**(1.1)**
Total comprehensive income for the year				53.2	**53.2**	32.4	**85.6**
Balance at 31 December 2017	**7.0**	**242.9**	**89.7**	**52.0**	**391.6**	**250.8**	**642.4**

Consolidated income statement pursuant to Consob Resolution no. 15519 of 27 July 2006

€ millions

	31 December 2017	related parties (*)	% of total	31 December 2016	related parties (*)	% of total
Revenue	1,109.4	210.2	18.9%	566.1	70.2	12.4%
Other revenue and income	26.1		-	17.2	-	-
- of which non-recurring	*0.2*			-		
Change in inventory of finished products	(0.3)	-	-	(1.2)	-	-
Raw materials, consumables and supplies	(107.2)	-	-	(57.0)	-	-
Services	(462.8)	(43.3)	9.4%	(256.5)	(13.5)	5.3%
- of which non-recurring	*(1.3)*			*(1.5)*		
Use of third-party assets	(60.9)	-	-	(30.3)	-	-
Personnel expense	(321.4)	-	-	(147.5)	-	-
- of which non-recurring	*(0.7)*			*2.7*		
Income (expense) from investments measured at equity	2.1	-	-	1.7		
Amortization, depreciation, provisions and impairment lo:	(66.1)	-	-	(34.1)	-	-
- of which non-recurring				*(3.1)*		
Other operating costs	(16.2)	-	-	(7.0)	-	-
EBIT	**102.7**	**-**	**-**	**51.5**	**-**	
Income (expense) on investments	16.2	-	**-**	-	**-**	**-**
Net financial income (expense)	(24.8)	(1.0)	4.0%	(9.2)	(0.5)	5.5%
Pre-tax profit	**94.1**	**-**	**-**	**42.3**	**-**	**-**
Income tax	(10.8)	-	-	(10.3)	**-**	**-**
Profit from continuing operations	**83.3**	**-**	**-**	**32.0**	**-**	**-**
Loss from discontinued operations	**-**	**-**	**-**	-	**-**	**-**
Profit for the year	**83.3**	**-**	**-**	**32.0**	**-**	**-**

(*) Related party transactions are analyzed in Note 38

Consolidated statement of financial position pursuant to Consob Resolution no. 15519 of 27 July 2006

€ millions

Assets	31 December 2017	related parties (*)	% of total	31 December 2016	related parties (*)	% of total
Property, investment property, plant and equipment	97.7			111.4		
Intangible assets	1,008.2			1,017.8		
Investments	45.9			53.6		
Non-current financial receivables	3.8			4.4		
Other non-current assets	15.3			15.5		
Deferred tax assets	113.3			126.2		
Total non-current assets	**1,284.2**			**1,328.9**		
Inventory	18.2			20.3		
Trade receivables	293.2	1.1	0.4%	316.1	1.4	0.4%
Receivables from parents, associates and affiliates	18.7	18.7	100.0%	20.9	20.9	100.0%
Sundry receivables and other current assets	38.9			48.8		
Other current financial assets	0.9			1.2	0.1	8.3%
Cash and cash equivalents	128.1			124.8		
Total current assets	**498.0**			**532.1**		
Total assets	**1,782.2**			**1,861.0**		

Equity and liabilities	31 December 2017	related parties (*)	% of total	31 December 2016	related parties (*)	% of total
Share capital	7.0			7.0		
Share premium reserve	242.9			242.9		
Prior-year earnings (losses)	89.7			73.5		
Profit for the year	52.0			21.4		
Equity attributable to the owners of the parent	**391.6**			**344.8**		
Non-controlling interests' share capital and reserves	250.8			221.0		
Total equity	**642.4**			**565.8**		
Non-current financial payables and liabilities	319.1			368.5	12.3	3.3%
Post-employment benefits	51.6			53.3		
Provisions for non-current risks and charges	14.9			36.3		
Deferred tax liabilities	169.7			177.6		
Other non-current liabilities	0.9			3.3		
Total non-current liabilities	**556.2**			**639.0**		
Current financial payables and liabilities	73.0	4.4	6.0%	110.1	12.5	11.4%
Trade payables	307.7			349.6		
Payables to parents, associates and affiliates	17.2	17.2	100.0%	20.8	20.8	100.0%
Tax liabilities	16.8			16.4		
Current portion of provisions for risks and charges	54.4			44.6		
Sundry payables and other current liabilities	114.5			114.7		
Total current liabilities	**583.6**			**656.2**		
Total liabilities	**1,139.8**			**1,295.2**		
Total equity and liabilities	**1,782.2**			**1,861.0**		

(*) Related party transactions are analyzed in Note 38

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Main activities

Cairo Communication S.p.A. (the Parent or the Company) is a joint-stock company listed in the Milan Company Register.

The Cairo Communication Group (the Group) operates as a publisher of magazines and books (Cairo Editore - and its division Editoriale Giorgio Mondadori - and Cairo Publishing), as a TV publisher (La7), as a multimedia advertising broker selling advertising time and space on television, in print media and in stadiums (Cairo Communication and Cairo Pubblicità), as a publisher of dailies and magazines (weeklies and monthlies) in Italy and Spain through RCS MediaGroup, also active in the organization of major world sporting events, as a publisher of electronic content (Il Trovatore), and as a network operator (Cairo Network S.r.l.).

The registered office of Cairo Communication S.p.A. is in Corso Magenta 55, Milan. The administrative offices, the advertising sales units and Il Trovatore and Cairo Network are located in Via Rizzoli 8. The magazine publishing business is managed at the offices of Cairo Editore in Corso Magenta 55, Milan. The publishing business of La7 is managed mainly in Rome at the registered offices and the TV studios of La7 S.p.A. in Via della Pineta Sacchetti 229 and Via Novaro 32, respectively. RCS activities are mainly carried out in Via Rizzoli 8 and Via Solferino 28, Milan, and in Avenida San Luis 25, Madrid.

The currency of these consolidated financial statements is the Euro, used as the functional currency by most Group companies. Unless otherwise indicated, all amounts are expressed in millions of Euro.

Basis of preparation

Form and content of the consolidated financial statements

The consolidated financial statements of the Cairo Communication Group at 31 December 2017 have been prepared in accordance with IFRS issued by the International Accounting Standard Board ("IASB") and endorsed by the European Union, as well as with the provisions arising from art. 9 of Legislative Decree no. 38/2005. The term IFRS is used to mean all the international accounting standards ("IAS") and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC").

Form and content of the financial statements

The **consolidated income statement** is presented by nature, highlighting interim operating results and pre-tax results, in order to allow a better measurement of the results from normal operations. These transactions also fall under the definition of non-recurring events and transactions as per Consob Communication no. 6064293 of 28 July 2006.

The income statement effect of discontinued operations is shown in a single line of the income statement named "Profit/loss from discontinued operations", under IFRS 5.

The **consolidated statement of comprehensive income** also reflects the "*changes arising from transactions with non-owners*" - separately showing the relevant tax effects, that is:

- profit and loss that could be directly recognized in equity (for instance actuarial gains and losses from the measurement of defined benefit plans);
- the effects of the measurements of derivative instruments hedging future cash flows;
- the effects of the measurements of available-for-sale financial assets;
- the effects arising from any change in accounting standards.

The consolidated statement of comprehensive income presents the items relating to the amounts of the components of other comprehensive income for the period by nature and grouped into those which, in accordance with the provisions of other IAS/IFRS:

- will not be subsequently reclassified to profit (loss) for the year;
- will be subsequently reclassified to profit (loss) for the year, when certain conditions are met.

The **consolidated statement of financial position** presents separately assets and liabilities divided in current and non-current, indicating, on two separate lines, "Assets held for sale" and "Liabilities associated with discontinued operations", in accordance with IFRS 5. Specifically, an asset or a liability is classified as current when it satisfies one of the following criteria:

- it is expected to be realized or settled or it is expected to be sold or utilized in the normal operating cycle of the company;
- it is held principally to be traded;
- it is expected to be realized or settled within 12 months of the reporting date.

Otherwise, the asset or liability is classified as non-current.

The **consolidated statement of cash flows** has been prepared applying the indirect method in which operating profit is adjusted to reflect transactions of a non-monetary nature, for whatever deferral or accrual of previous or future operating receipts or payments and for revenue or cost components connected to cash flows arising from investing or financing activities. Income and expense relating to medium or long-term financial operations and those relating to hedging instruments, and dividends paid are included in financing activities.

The **statement of changes in consolidated equity** shows the changes in equity relating to:

- allocation of profit for the year;
- amounts relating to transactions with owners (purchase and sale of treasury shares);

and separately income and expense defined as "*changes arising from transactions with non-owners*", also shown in the consolidated statement of comprehensive income.

Furthermore, in order to comply with Consob Resolution No. 15519 of 27 July 2006 relating to reporting formats, additional formats on the consolidated income statement and the consolidated statement of financial position have been added, highlighting significant related party transactions in order not to compromise the overall readability of the formats.

Scope of consolidation

In 2016, Cairo Communication, through a voluntary total public purchase and exchange offer, acquired a controlling interest in RCS MediaGroup S.p.A., which was included in the scope of consolidation as of 1 September 2016.

The consolidated income statement at 31 December 2016, therefore, presented for comparative purposes, includes cost and revenue components attributable to the RCS Group only for the September-December four-month period of 2016.

As explained below, the income statement and balance sheet figures for the year ended 31 December 2016, presented for comparative purposes, have been adjusted to those presented in the Annual Report at 31 December 2016 to retrospectively reflect the income statement and balance sheet effects resulting from the completion of the process for determining the fair value of the RCS Group consolidated assets and liabilities at the acquisition date required in the application of the "acquisition method" under IFRS 3. Mention should, in fact, be made that, at the date of preparing the Annual Report at 31 December 2016, as the measurement of the fair value had not been completed yet, RCS Group assets and liabilities had been booked on the basis of "provisional" values.

Additionally, the statement of cash flows for the year ended 31 December 2016, presented for comparative purposes, has been reclassified from the statement appearing in the Annual Report at 31 December 2016 to reflect the above adjustments to the income statement and balance sheet.

In 2017, there were no changes to the scope of consolidation from the consolidated financial statements for the year ended 31 December 2016, except for the liquidation of Canali Digitali S.r.l., previously consolidated line-by-line and deconsolidated, and for the disposal of 75% of the quotas in RCS Gaming S.r.l., previously consolidated line-by-line and now classified as Available for Sale (the company has changed its name to SportPesa Italy S.r.l.).

Editoriale Veneto S.r.l. and Editoriale Fiorentina S.r.l. were merged by incorporation into RCS Edizioni Locali S.r.l. and, effective as of 31 December 2017 and for accounting and tax purposes as of 1 January 2017, RCS Investimenti S.p.A. was merged by incorporation into RCS MediaGroup S.p.A..

The consolidated financial statements at 31 December 2017 include the financial statements of the Parent and Cairo Communication S.p.A. and the following direct and indirect subsidiaries, appearing in Annex 1 "Cairo Communication Group companies".

Consolidation procedures

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and endorsed by the European Union.

It should be noted that the consolidated financial statements of the Cairo Communication Group at 31 December 2017 have been prepared on a going concern basis, inasmuch as the Group believes that even in the presence of a difficult economic and financial climate, significant uncertainties do not exist (as defined by paragraphs 25 and 26 of IAS 1) on the Company's ability to continue as a going concern, given both the profitability outlook of Group companies and the Company's financial position.

With regard to Consob communication no. DEM/11070007 of 5 August 2011, it should also be recalled that the Group does not hold any bonds issued by central and local governments and by government agencies, and therefore it is not exposed to risks deriving from market fluctuations.

The direct and indirect subsidiaries appearing in Annex 1 "Cairo Communication Group companies - Companies consolidated line-by-line" are consolidated as from their acquisition date, meaning the date on which the Group obtains control, and cease to be consolidated on the date on which control is lost.

The income and expense of the subsidiaries acquired or sold during the year are included in the income statement from the date on which the Group gains control until the date on which the Group no longer controls the companies.

The companies on which it exercises joint control with other shareholders, and companies that are associated or otherwise subject to significant influence were consolidated at equity in accordance with IFRS 11.

The accounting policies adopted are consistent for the companies included in the consolidation scope and the related financial statements have all been prepared at 31 December 2017.

Where necessary, adjustments to subsidiary financial statements are made in order to harmonize them with the Group accounting policies.

The full consolidation method has been used for the consolidation of subsidiary financial statements, assuming the total of assets, liabilities, income and expense of individual companies, regardless of the share owned, eliminating the carrying amount of the Parent investment against the subsidiary's equity.

Under the "full goodwill" option, in addition to recognizing 100% of the fair value of assets and liabilities acquired, pursuant to IFRS 3 - Business Combinations, goodwill attributed to minorities is also booked. Accordingly, changes to the interest that do not constitute a loss of control or that refer to investees already controlled, are recognized in consolidated equity.

Non-controlling interests in the net assets of consolidated subsidiaries are disclosed separately from equity attributable to owners of the parent. This interest is calculated on the basis of the percentage stake of the fair value of the asset or liability on the original purchase date and subsequent changes in equity after such date.

Unrealized gains and losses, provided they are not minor, deriving from transactions between companies included in the scope of consolidation, are eliminated, as are all significant transactions which give rise to intra-Group receivables and payables, income and expense. These adjustments, like other consolidation adjustments, where applicable, take account of the related deferred tax effect.

Dividends distributed by consolidated companies are eliminated from the income statement and added to prior-year profits if and to the extent they were paid out of such profit.

Assets held for sale, which are very likely to be disposed within the following twelve months, if the other conditions prescribed by IFRS 5 are met, are classified in accordance with the provisions of this standard, and therefore once they are consolidated line by line, the assets referred thereto are classified in a single item, defined "Assets held for sale". The liabilities related thereto are recognized in a single line of the statement of financial position, in the liabilities section, and the related margin is reported in the income statement under "Result of the assets held for sale and transferred".

Upon consolidation, the financial statements of the foreign subsidiaries in a currency other than the Euro are translated adopting, for the figures of the statement of financial position, the spot exchange rate at the end of the year, and for the income components of the income statement, the average rate of the year. Exchange rate differences are recorded in a separate provision called Translation Reserve.

Changes to the interest that do not constitute a loss of control or that refer to investees already controlled, are treated as equity transactions and classified in equity.

Business combinations and goodwill

Business combination are recognized according to the acquisition method, whereby the subsidiary's assets, liabilities and identifiable contingent liabilities that meet the conditions of IFRS 3 are measured at fair value on the acquisition date. Thus, deferred tax assets and liabilities are allocated on the adjustments made to the previous carrying amounts to align them to the current value.

Because of its complexity, application of the acquisition method entails a first step of provisionally determining the current values of the assets, liabilities and contingent liabilities acquired, to allow a first recording of the transaction in the consolidated financial statements for the year in which the combination was carried out. The first recording is completed and adjusted within twelve months from the date of acquisition. Changes to the initial consideration arising from facts or circumstances subsequent to the acquisition date are recognized in the income statement.

Goodwill arising from the acquisition of a subsidiary corresponds to that portion of the acquisition price paid by the Group that exceeds the Group share of the fair value of the assets, liabilities and identifiable contingent liabilities of a subsidiary, at the acquisition date. The "full goodwill" option allows the acquirer to recognize 100% of the goodwill of the acquired companies, rather than just the goodwill attributed to the majority.

Goodwill arising from the business combination of the RCS Group was determined by using the "full goodwill" approach.

Goodwill is recognized as an intangible asset with indefinite useful life and is not amortized.

Any positive difference between assets and liabilities measured at fair value at the acquisition date and the price paid is recognized in the consolidated income statement as non-recurring income. It may be subject to further adjustment within twelve months from the date of acquisition.

Transaction costs do not form part of the consideration transferred and so are charged to the income statement.

Goodwill is periodically re-examined, to verify its recoverability by comparison with the higher amount between fair value and value in use, calculated as the summation of the discounted future cash flows generated by the underlying investment. Impairment losses are recognized directly in profit and loss and are not subsequently reversed.

For the purposes of the fairness analysis, the goodwill acquired in a business combination is allocated, at the date of acquisition, to the Group's individual cash generating units, or to the groups of cash generating units that should benefit from the synergies of the combination, regardless of whether other assets or liabilities of the Group are assigned to these units or groups of units.

Investments

Associates and joint ventures

Associates are those over which the Group, while not having control or joint control, can exercise significant influence through participation in decisions regarding financial and operating policies.

A joint venture is represented by investments in companies in which the strategic financial and managerial decisions on business activities require the unanimous agreement of all parties that share control, in accordance with IFRS 11.

The financial results, assets and liabilities of associates and joint ventures are consolidated using the equity method. Using this method, investments in associates at the time of acquisition are recognized in the statement of financial position at cost, subsequently adjusted for the pertinent fraction of the changes in shareholders' equity of the associate itself. Any losses exceeding the Group share therein are not recognized, unless the Group has a commitment relating to loss coverage. The excess of acquisition cost over the Group share of carrying amount of assets, liabilities and identifiable contingent liabilities of the associate at the acquisition date is recognized as goodwill. Every year, goodwill is tested for impairment.

The lower value of acquisition cost over the Group share of the fair value of assets, liabilities and identifiable contingent liabilities of the associate at the acquisition date is credited in the income statement during the year.

If an associate or joint venture recognizes adjustments with direct allocation to equity and/or in comprehensive income, the Group in turn records its share in equity and represents it, when applicable, in the statement of changes in equity and/or in the statement of other comprehensive income for the year.

Any impairment loss in the investment recognized in accordance with IAS 36 is not ascribable to goodwill or to the fair value measurement of assets recorded in the financial statements of the associate, but rather to the value of the investment as a whole. Therefore, any reversal of impairment loss is recognized fully to the extent to which the recoverable value of the investment increases subsequently, on the basis of the result of the impairment test.

With regard to transactions between Group companies and associates, unrealized profits and losses are eliminated in a proportion equal to the Group investment in the associate, except when unrealized losses are evidence of an impairment loss on the business acquired.

Revenue and cost recognition

Revenue and cost and income and expense are recognized on an accruals basis, specifically:

- Revenue is recognized based on the probability with which the company will enjoy the economic benefits and in the extent to which the amount can be reliably determined. Revenue is stated net of any adjustments.
- Revenue from the sale of advertising space on traditional media is recognized at the moment the advertisement is broadcast or published. Revenue from (daily and periodical) publications is recognized at the date of publication, net of reasonably estimated returns.
- Advertising revenue realized on digital channels is recognized on the duration of the period of delivery of the advertising messages.
- Revenue from the sale of magazine subscriptions is recognized on the basis of the magazines published and distributed during the period.
- Revenue for services is recognized at the date of its accrual, as defined in the respective contracts.
- Royalties are recognized at the date of its accrual, as defined in the respective contracts.
- Pre-publication and launch costs are recognized in profit and loss when incurred.
- Costs and other operating expense are recognized as components of profit for the year at the time they are incurred according to the matching and accrual accounting principle that governs revenue, and when they have no requirements for deferral as assets in the statement of financial position.
- Interest income and expense are recognized on an accruals basis.
- Dividends are recognized when the right of the shareholders to receive the payment is established or at the date of the shareholders' meeting resolution.

- The charge-back of costs incurred on behalf of third parties are recognized as a reduction in the cost to which they relate.

Taxes

Taxes for the year correspond to the sum of current, deferred taxes and prepaid taxes.

Current taxes are based upon taxable income for the year. Taxable income differs from the results shown in the income statement as it excludes both positive and negative entries which would be taxable or deductible in other tax years and excludes components which are not taxable or deductible at any time.

Current taxes are calculated using the rates in force at the reporting date.

The subsidiaries Cairo Editore, Cairo Pubblicità, Diellesei in liquidation, Cairo Publishing, La7 and Cairo Network have participated, since 2016, in the national tax consolidation scheme of Cairo Communication, in accordance with art. 117/129 of the Consolidated Income Tax Act. Cairo Communication acts as the tax parent and determines a single taxable base for the group of companies that participate in the national tax consolidation scheme, which thereby benefits from the ability of offsetting taxable profits against taxable losses in one tax return.

In 2017, RCS MediaGroup S.p.A., as the tax parent, renewed the option to be included in the national tax consolidated regime together with Trovolavoro S.r.l., RCS Sport S.p.A., RCS Produzioni Padova S.p.A., Sfera Service S.r.l., Blei S.r.l. in liquidation, RCS Edizioni Locali S.r.l., RCS Produzioni S.p.A., RCS Digital Ventures S.r.l., Digicast S.p.A., Digital Factory S.r.l., RCS Produzioni Milano S.p.A., and Editoriale del Mezzogiorno S.r.l..

Deferred tax liabilities are generally recognized for all taxable temporary differences, while deferred tax assets or future tax benefits are recognized to the extent of the probability that there will be future taxable profits which will allow for the utilization of the deductible temporary differences. Deferred taxes are calculated on the basis of the tax rates that are expected will be in force at the moment of realization of the asset or settlement of the liability, based on tax legislation in force at the reporting date. Where relevant, the effects of any changes in tax rate or tax legislation are disclosed in the notes. Deferred tax assets and liabilities are shown at their net value when there is a legal right to offset current tax liabilities against tax receivable assets and when taxes relate to the same taxation authority.

Earnings per share

The basic earnings per share is determined as the ratio between the Group's share of the results of the year attributable to the ordinary shares and the weighted average number of ordinary shares outstanding during the year.

Post-employment benefits

Post-employment benefits, mandatory for all Italian companies under art. 2120 of the Civil Code, are deferred remuneration and are directly related to the employee's length of service in the company, and to the employee's actual remuneration received during their period of service.

For Italian companies with at least 50 employees, post-employment benefits take the form of a defined benefit plan, solely for the amounts accrued prior to 1 January 2007 (and not yet paid at the reporting date), whereas subsequent to such date, they are recognized as a defined contribution plan. For Italian companies with less than 50 employees, post-employment benefits are considered as a defined benefit plan. All defined benefit plans are discounted. The discounting process, based on demographic and financial assumptions, is performed by independent actuaries. Following the Amendment to IAS 19 - *Employee Benefits*, the recognition of expense related to work performed and net financial expense are recognized in the income statement, while the recognition of actuarial gains and losses arising from the re-measurement of liabilities and assets are recognized in the statement of comprehensive income.

Non-current assets

Intangible assets

Costs, including ancillary costs incurred for the acquisition of resources with no physical substance, are recognized under intangible assets when the cost is quantifiable and the asset is clearly identifiable and controlled by the Group, and where the use of the asset will generate probable future benefits to the Group.

Advertising costs, start-up and expansion costs, and research costs are not capitalized.

Non-current assets with a finite useful life are systematically amortized on a straight-line basis in each individual period, to take into account the residual potential for use.

"Goodwill" refers to the higher value attributed upon first consolidation of an investment or identified residually from the acquisition price paid by the Group that exceeds the fair value of the assets, liabilities and identifiable contingent liabilities of some subsidiaries, at the acquisition date.

Goodwill and intangible assets having indefinite life are not amortized, but rather they are periodically tested to identify any impairment losses, as described in the paragraph “Impairment losses of assets”. If the discounted expected cash flows do not allow recovery of the initial investment, the recorded asset is appropriately written down.

The higher value attributed to an intangible asset with finite useful life, recorded in accordance with IFRS 3 as a result of the acquisition of an investment upon first consolidation, is amortized if referred to non-current assets with finite life. If goodwill is allocated to intangible assets with indefinite useful life, it is not amortized. These assets are tested for impairment as prescribed by IAS 36.

The amortization periods of intangible assets of various types are as follows:

Concessions, licenses, trademarks and similar rights	3 to 5 years
Software	3 to 5 years
Publication titles	10 to 30 years or indefinite
Television rights	based on availability period
Other intangible fixed assets	2 to 10 years

Publication titles with finite useful life are amortized over a period between ten and thirty years from the date of their acquisition based on their remaining useful lives. This amortization period is regularly reviewed to take account of the financial performance of the subsidiaries that own the title.

Registration rights (with a duration of more than 12 months) for the broadcasting of films, series, soaps, cartoons, classical concerts, short films, documentaries, reports and the like, including ancillary expense (dubbing, editing and materials), and contributions to productions purchased under license agreements, are carried under “media rights” and amortized on an annual straight-line basis throughout the contractual term of the rights, as from the year they are available and ready for use. If the rights have used up their airing time, regardless of the amortization already charged, the residual amount is fully charged to the income statement in the period of the last airing.

The remaining useful life and the amortization criteria applied are reviewed on a regular basis and where change is deemed necessary, the amortization rate is restated in accordance with the “prospective” method.

Assets under development include the costs incurred for the acquisition or internal production of intangible assets, to which title has not been fully acquired or for projects to be completed. Assets under development continue to be accounted for in this item up to the time of their economic use, when they are reclassified under the relevant items of intangible assets and amortized.

Assets under development are tested for impairment as prescribed by IAS 36.

Financial expense is capitalized in the carrying amount of the intangible assets acquired, where a significant period of time is needed before they are ready to be used.

Property, plant and equipment

Property, plant and equipment (PPE) are recognized when their cost can be reliably determined and when related future economic benefits can be enjoyed by the Group.

They are recognized at acquisition price or production cost, including directly associated expense and costs, plus the share of indirect costs which can be reasonably attributed to the asset.

These assets are systematically depreciated on a straight-line basis each year at rates consistent with the economic and technical useful life of the asset. Depreciation rates applied are as follows:

Property	3% - 20%
General equipment	12% - 25%
Plant and equipment	5% - 20%
Other assets	10%-50%

Land is not depreciated.

In the first year, the rates applied take into account the actual use of the asset during the year; depreciation starts when assets are ready for use.

The remaining useful life and the amortization criteria applied are reviewed on a regular basis and where change is deemed necessary, the amortization rate is restated in accordance with the "prospective" method.

Incremental and maintenance costs producing a significant and tangible increase in the productive capacity or security of assets, or lengthening their remaining useful life, are capitalized and recognized as an increase in the carrying amount of the asset. Ordinary maintenance costs are taken directly to profit and loss.

Leasehold improvements are recognized as PPE, on the basis of the nature of the cost incurred. The depreciation period corresponds to the lower of the remaining useful life of the asset and the term of the contract.

An asset is eliminated from the financial statements at the time it is sold, or it is written off when no future economic benefit is expected from its use or disposal. Any losses or gains (calculated as the difference between the net income from the sale and the carrying amount) are included in the income statement in the year of the aforesaid elimination.

The accounting treatment of the assets acquired with financial leases, with regard to their financial effects is in line with IAS 17. The abovementioned international standard prescribes recognizing such assets among owned assets at cost and depreciating them, as stated above, according to the estimated useful life with the same criteria as for the other property, plant and equipment.

The principal amount of the lease payment is recorded under liabilities as a deduction from the payable amount, whilst the financial expense included in the payment is recognized under financial expense in the income statement.

This principle is also applied in case of rented assets, for which the particular conditions prescribed by IAS 17 hold true; the most significant of these are illustrated below:

- the discounted future payments prescribed in the contract are substantially higher than or equal to the fair value of the asset;
- the duration of the lease contract exceeds three quarters of the useful life of the asset itself.

Investment property

Investment property held to obtain lease payments, for appreciation of the invested capital, or for both purposes, is recognized at cost, inclusive of directly allocated ancillary expense and, with the exception of the component related to land, is systematically depreciated on a straight-line basis in each individual period on the basis of the estimated useful life.

Leasehold improvements are allocated to increase the involved assets only if they can be reliably estimated and they will be recoverable through expected future economic benefits that can be associated to them.

Investment property is periodically evaluated to identify any impairment losses as described in the following paragraph.

Impairment of non-financial assets

At least once a year, the Company reviews the recoverability of the carrying amount of intangible assets with indefinite useful life, of intangible assets under development, and of investments and publication titles with indefinite useful life, and whenever there are potential indicators of an impairment loss, the recoverability of the carrying amount of PPE and of intangible assets with finite useful life, in order to determine whether such assets may have suffered an impairment loss. When such indications are present, the carrying amount of the asset is reduced to reflect recoverable amount. The recoverable amount of an asset is the greater of its fair value less costs to sell, and its value in use. Fair value is determined according to market prices. In the absence of market value, estimates and valuation models are used based on data available on the market. Value in use is defined by discounting the cash flows expected from use or sale of the asset (or from aggregate assets, i.e. cash generating units).

Excluding goodwill, when the impairment loss on the value of an asset no longer applies or is reduced, the carrying amount of the asset is increased up to the new estimated recoverable amount, and may not exceed the amount which would have been determined had no impairment loss been recognized, net of any amortization of depreciation.

The recoverable value of Italian and Spanish trademarks/daily newspaper titles and of goodwill arising from the business combination of the RCS Group was determined, with support by an independent expert, in terms of the value in use:

- for Italian trademarks/daily newspaper titles and goodwill arising from the business combination of the RCS Group, based on the 2018 budget approved by the Board of Directors of RCS on 5 March 2018. Cash flows as inferred from the 2018 budget, in compliance with the provisions of IAS 36, were projected for valuation purposes to be constant in nominal terms (growth rate g = 0). These flows were, therefore, discounted on the basis of a rate defined as the weighted average cost of capital (WACC) (equal to 7.62% for Italian trademarks/daily newspaper titles and to 7.83% for goodwill). The 2018 budget was also matched against and found to be consistent with the RCS 2018-2020 plan. No evidence of impairment arose from the analysis performed;
- for Spanish trademarks/daily newspaper titles El Mundo, Marca and Expansion, based on the 2018-2022 forecast cash flows which, for the first year of explicit forecast, correspond to the 2018 budget data approved by the Board of Directors of Unidad Editorial on 23 February 2018,

and for the following years, are based on Unidad Editorial’s Plan approved by the Board of Directors on 13 March 2018. Forecast cash flows for 2018-2022, projected for valuation purposes to be constant in nominal terms (growth rate g = 0), were discounted at a rate considered to represent the weighted average cost of capital (WACC equal to 8.25%). No evidence of impairment arose from the analysis performed.

The values obtained underwent a sensitivity analysis, by varying the discount rate (WACC) and the growth rate of the final value (g), with discrete changes of 50 basis points, and reducing the expected EBITDA values in the year and included in the final value of -15%. None of the scenarios envisaged result in impairment losses.

Regarding the Spanish daily newspaper titles *El Mundo*, *Marca* and *Expansion*, which were attributed, in the context of the business combination of the RCS Group, a fair value equal to the value recorded in the consolidated financial statements of the RCS Group at the acquisition date, RCS prepared an autonomous impairment test with the help of a leading consultancy firm, which showed no impairment.

The book value of the goodwill relating to the cash generating units represented by Cairo Editore’s magazine publishing segment and the advertising segment was also subject to test and indicated no impairment.

Current assets and liabilities

Inventories

Inventories are measured at the lower of the purchase or production cost, including all directly attributable expense, net of discounts and allowances, calculated using the weighted average cost method, and estimated realizable value which can be derived from market prices. Estimated realizable value takes into account market prices, any production costs yet to incur and direct sales costs. Inventories are adjusted for obsolete and slow moving items through a specific write-down provision.

Loans and Receivables

“Loans and Receivables” are measured according to the amortized cost criterion, recognizing in the income statement the interest calculated at the effective interest rate, i.e. applying a rate that reduces to zero the sum of the present values of the net cash flows generated by the financial instrument. Losses are recognized in the income statement when impairments manifest themselves or when loans and receivables are eliminated from the accounts.

Trade and other receivables are recognized at their estimated realizable value (fair value) and are written down when there is an objective indication of their likely non-collectability, based also on historical experience and statistical data. Loans and trade receivables denominated in a foreign currency are translated at the exchange rate at year end, and the gains or losses deriving from the adjustment are recognized in the income statement.

Financial assets

They are initially recognized at fair value, which normally corresponds to consideration paid and direct expense associated with their acquisition. Financial assets acquired and sold are recognized at their trading date, when the Group intends to acquire/sell these assets.

At the subsequent reporting dates, the financial assets that the Group has the intention and the ability to hold to maturity ("held-to-maturity investments") are recognized at amortized cost, i.e. applying a rate that reduces to zero the sum of the present values of the net cash flows generated by the financial instruments, net of any impairment losses, to reflect write-downs, if any. Receivables are written down when there is an objective indication of their likely non-collectability, based also on historical experience and statistical data. If, in subsequent periods, the reasons for the previous impairment losses no longer apply, the value of the asset is restored up to the value that would have derived from applying the amortization cost, if the impairment loss had not been recognized.

Investments other than those held to maturity are classified as held for trading or available for sale and are measured at the end of each reporting period at their fair value.

When financial assets are held for trading, gains and losses arising from fair value changes are recognized in profit and loss.

In the case of available-for-sale financial assets, gains and losses arising from fair value changes are recognized in a separate income statement item as long as the assets are held in the portfolio and there is no impairment, and they are recognized in comprehensive income. When available-for-sale financial assets are sold, redeemed or transferred, cumulative gains or losses previously recognized in comprehensive income must be reclassified from equity to profit/ (loss) for the year. This reserve is also carried to the income statement if alignment to fair value derives from a subsequent impairment of the asset.

In case of securities traded on active markets, fair value is determined with reference to the price at the end of the trading day on the ending date of the year, whilst for investments for which there is no active market, the fair value is determined on the basis of the price of recent transactions between independent parties involving substantially similar instruments, or using valuation techniques based on the analysis of the discounted cash flows. Only if development plans of the underlying assets cannot be obtained and there are no comparable transactions, the valuation is maintained at cost.

Cash and cash equivalents

This item comprises cash, bank deposits on demand, and other short-term highly liquid financial investments which are easily convertible to cash and not subject to the risk of significant value changes.

Cash and cash equivalents are recognized at their nominal amount.

Borrowings, bank loans and overdrafts

Borrowings, interest-bearing bank loans and bank overdrafts are initially recognized at fair value, which substantially matches the amounts collected net of transaction costs, and subsequently measured at amortized cost using the current interest rate method.

If the loan agreements provide covenants, which are not fulfilled, and this situation is not remedied before the end of the year, the long-term portion of that loan is classified as current debt.

After the initial recognition, financial liabilities are measured in relation to their classification within one of the categories defined by IAS 39. In particular, it is pointed out that:

- The measurement of “Financial liabilities at fair value through profit or loss” is carried out with reference to the market value at the ending date of the reporting period; in case of unlisted instruments (e.g., derivatives), it is determined through financial valuation techniques based on market data. Fair value gains and losses on liabilities held for trading are recognized in profit or loss.

- “Financial liabilities measured at amortized cost” are measured at amortized cost criterion, recognizing in the income statement the interest calculated at the effective interest rate, i.e. applying a rate that reduces to zero the sum of the present values of the net cash flows generated by the financial instrument. In case of instruments with maturity after twelve months, the nominal value is adopted as an approximation of the amortized cost.

Trade payables

These are recognized at their fair value, which coincides with the consideration to be paid. Payables denominated in a foreign currency are aligned at the exchange rate at year end, and the gains or losses deriving from the adjustment are recognized in the income statement.

Equity

Treasury shares

Treasury shares are measured at historical cost and are recognized as a reduction in equity. The result of the subsequent sale of treasury shares is recognized directly as a change in equity.

Dividends paid

Dividends payable are recognized as a change in equity in the year they are approved by the Shareholders' Meeting or by the Board of Directors in the event of an interim dividend, pursuant to art. 2433 bis of the Italian Civil Code.

Provisions for risks and charges

Provisions for risks and charges are recognized when the Group has a legal or constructive obligation resulting from a past event and for which a probability exists for the fulfillment of that obligation. The provisions reflect the best estimate of costs based on information currently available in order to fulfill the obligation at the reporting date, and are discounted when the effect is significant.

Derivative financial instruments

Derivatives are classified as "Hedging derivatives" if they meet the requirements for application of hedge accounting, otherwise, although they are entered into for risk exposure management purposes, they are recognized as "*Financial assets held for trading*".

In accordance with IAS 39, derivative financial instruments can be subject to hedge accounting only when the relationship between the derivative and the object of the hedge is formally documented and the hedge effectiveness is high (effectiveness test). Hedge effectiveness is measured on a continuous basis.

When hedging derivatives hedge the risk of change in fair value of the hedged instruments (fair value hedges), the derivatives are recognized at fair value through profit or loss. Among them are instruments hedging exchange rate risks on foreign currency payables (forward currency purchases coinciding with the maturity of contractual payments).

When derivatives cover exposure the cash flow variability (cash flow hedges) of the hedged instruments, the effective portion of the gains and losses deriving from fair value adjustment of the derivative is recognized in comprehensive income and presented in a specific equity reserve. The ineffective portion of fair value changes to the derivative is immediately recognized in the income statement. If the derivative instrument is sold or no longer qualifies as an effective hedge of the risk for which the transaction was entered into, or the occurrence of the underlying transaction is no longer deemed highly likely, the portion of the cash flow hedge provision relating to it is immediately reversed to income statement.

Regardless of classification, all derivatives are stated at fair value, determined using valuation techniques based on market data (such as discounted cash flows, forward exchange rate method, Black-Scholes model and its variants).

Use of estimates

The preparation of the financial statements and the notes thereto, in application of the IFRS, requires that the Company carry out certain estimates and assumptions which affect the carrying amount of assets and liabilities and disclosures about assets and contingent liabilities at the reporting date. Estimates and assumptions used are based on experience and on other factors considered significant. Actual results could differ from these estimates. Estimates mainly relate to provisions for risks relating to receivables, obsolete inventory, publishing returns, investment measurements, amortization, depreciation, impairment of assets, taxation, provisions for risks and charges, and contingent liabilities.

Estimates and assumptions are reviewed regularly and the effects of each variation therein are recognized in the profit and loss in the period in which the estimate was revised. The effects of such revisions are reflected in the periods on which they have effect, i.e. both in the current period, and in future periods, if relevant. In this context, the persisting uncertainty factors in the short and medium economic term, which make it hard to predict a return to normal market conditions, have led to the need to make assumptions regarding future performance which are influenced by significant uncertainty, and the possibility of achieving results different from those estimated cannot be excluded for the next year, and which could therefore require adjustments to the carrying amount, even significant, although these are obviously neither currently quantifiable nor foreseeable.

The items most susceptible to these uncertainties are intangible assets (including goodwill), the allowance for impairment, inventory write-downs, deferred tax assets and liabilities, post-employment benefits and the provisions for risks and charges.

A summary follows of all critical measurement processes used and key assumptions made by management regarding the future in the process of applying accounting policies and that could have a significant effect on the amounts recognized in the consolidated financial statements and for which there is a risk that significant adjustments to the carrying amount of assets and liabilities could arise in the next financial period.

Determination of the recoverable amount of non-current assets

The Group revises periodically the carrying amount of intangible assets even in the absence of impairment indications, to verify that they are not recorded at a higher amount than their recoverable value. When impairment loss indicators are observed, the carrying amounts of property and plant are also promptly revised. More specifically, goodwill relating to cash generating units and intangible assets with indefinite useful life are measured at least annually even in the absence of impairment indicators.

The recoverable value of the goodwill defined by each impairment test is sensitive to changes in the assumptions used, e.g. the rate of growth of revenue, forecast changes in the EBITDA and, among the valuation parameters, the discount rate (WACC) and the consistency of financial projections beyond the period of the plan (g equal to zero, in nominal terms). In turn, the WACC is sensitive to changes in its own components, including the risk free rate that summarizes country risk.

Allowance for impairment

The allowance for impairment reflects Management’s estimate regarding the losses on the portfolio of receivables from end customers. The allowance is estimated based on the losses expected by the Group, according to past experience for similar receivables, current and past due dates, losses and receipts arising from the careful monitoring of receivable management and from projections on market and economic conditions.

The persisting uncertainty factors in the short and medium economic term, along with the resulting credit squeeze, could result in further deterioration of the financial conditions of Group debtors compared to deterioration already considered in the quantification of the recognized allowance for impairment.

Deferred tax assets

Deferred tax assets are recognized to the extent to which it is considered probable that future taxable income will be generated to allow the utilization of deductible temporary differences. The realizable value of deferred tax assets is periodically reviewed according to the future taxable income foreseen in the Group’s most recent plans.

Provisions for risks and charges

The provisions for risks and charges relating to contingent liabilities of a legal or fiscal nature are made on the basis of estimates made by the Directors, on the basis of valuations made by the Company's legal and tax advisers on the probable charge that can be reasonably expected to fulfill the obligation.

Translation of foreign currency items

Transactions in foreign currency are initially recognized at the exchange rate in force on the transaction date. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in force at year end.

Non-monetary items valued at historical cost in foreign currency are converted at the exchange rate ruling on the transaction date. Non-monetary items recognized at fair value in foreign currency are converted at the exchange rate ruling on the fair value measurement date.

If a designated fair value hedging relationship has been set up between a hedging instrument and an element being hedged in foreign currency, the accounting treatment applied is the same as for hedges, as explained under "Derivative financial instruments".

Upon consolidation, the financial statements of the foreign subsidiaries in a currency other than the Euro are translated adopting, for the figures of the statement of financial position, the spot exchange rate at the end of the year, and for the income components of the income statement, the average rate of the year. Exchange rate differences are recorded in a separate provision called Translation Reserve.

Risk management

The main fiscal, legal and financial risks to which the Cairo Communication Group is exposed, as well as the policies put in place by Management for their management, are explained in Note 39. Reference is made to the Directors' Report for operational and business risks.

Accounting standards, amendments and interpretations effective as of 1 January 2017

Amendment to IAS 12 - *Recognition of deferred tax assets for unrealized losses*

On 19 January 2016, the IASB published the amendment to IAS 12 - Recognition of deferred tax assets for unrealized losses, endorsed by the European Commission in November 2017. The aim is to provide clarification on the recognition of deferred tax assets on unrealized losses.

The changes clarify that unrealized losses arising from certain circumstances generate deductible temporary differences, regardless of the entity's decision to recover the carrying amount of the asset by holding the asset until maturity or through its disposal.

The changes clarify that when estimating taxable income for future years, the entity may assume that the asset value will be recovered at a higher amount than its carrying amount, only where the recoverability of such higher amount is likely (this may occur, for example, when the entity plans to hold a fixed-rate debt instrument and collect the contractual cash flows). All these facts and circumstances should be taken into consideration when an entity makes such an assessment.

The adoption of these amendments by the Cairo Group, applicable retrospectively as of 1 January 2017, had no impact on the figures in the Annual Report.

Amendment to IAS 7 - *Statement of Cash Flows*: *Disclosure Initiative*

On 29 January 2016, the IASB published the amendment to IAS 7 - Statement of cash flows, endorsed by the European Commission in November 2017.

The amendment requires an entity to provide better disclosure on financial liabilities that allows users of financial statements to evaluate changes in liabilities arising from financing activities, including non-monetary items.

The adoption of these amendments by the Cairo Group, applicable as of 1 January 2017, had no impact on the disclosures in the Annual Report.

Accounting standards, amendments and interpretations endorsed by the EU and applicable from financial periods after 1 January 2017

IFRS 15 - *Revenue from contracts with customers*

In May 2014 the IASB issued IFRS 15 - *Revenue from contracts with customers*, a new standard for revenue accounting, which supersedes the recognition criteria set out in IAS 18 *Revenue*, IAS 11 - *Construction contracts*, IFRIC 13 - *Customer Loyalty Programmes*, IFRIC 15 - *Agreements for the Construction of Real Estate*, IFRIC 18 - *Transfers of Assets from Customers*, and SIC 31 - *Revenue: Barter Transactions Involving Advertising Services*.

IFRS 15 applies as of 1 January 2018. On first-time adoption, IFRS 15 is applied retrospectively. Certain simplifications are, however, applicable ("practical expedients"), as well as a different approach ("cumulative effect approach") that avoids the restatement of annual periods presented in comparative information; in the latter case, the effects arising from the application of the new standard should be recognized in the initial equity of the first annual period for which IFRS 15 is applied. Following the amendment issued in April 2016, the IASB clarified a number of provisions and also provided further simplifications in order to reduce costs and complexity for first-time adopters of the new standard.

The Group will adopt IFRS 15 *Revenue from contracts with customers* as of 1 January 2018, using the cumulative effect approach, therefore by not applying in the year ending 31 December 2018, the provisions of the new standard to the period presented for comparative purposes, recognizing the effects arising from the application of the new standard on opening equity at 1 January 2018.

While the Group has yet to complete the measurement of the impacts on the consolidated financial statements from the application of the new provisions of IFRS 15, based on the analyses carried out to date, the effects should be basically restricted to a different presentation of costs/revenue, as a result of the assessment of the principal/agent role, with no impact on Group equity at 1 January 2018.

Should these assessments be confirmed, the application of IFRS 15 as of 1 January 2017 would have resulted in higher revenue in 2017 (and correspondingly higher costs) estimated to date at approximately Euro 112 million, due to the presentation of publishing revenue gross of circulation margins, in line with the prevailing guidelines of the segment, and to the recognition in revenue solely of the margins from international sporting events and from a number of advertising and distribution contracts for third-party products. The application would have had no impact on the 2017 result and on consolidated equity at 31 December 2017.

Mention should be made that the Group has yet to complete the analysis and measurement of these effects, which may, therefore, undergo changes until the presentation of the financial figures of 2018.

IFRS 9 – *Financial instruments*

On 24 July 2014, the IASB published the final version of IFRS 9 *Financial instruments*, endorsed by the European Commission in November 2016, which supersedes IAS 39 - *Financial Instruments: Recognition and Measurement*. The document introduces new provisions for the classification and measurement of financial instruments, including a new model for expected losses in the calculation of impairment losses on financial assets, and new general provisions for hedge accounting. It also includes provisions for the recognition and derecognition of financial instruments in accordance with the current IAS 39. The new standard will be applicable as of 1 January 2018; early adoption is allowed. As a general rule, under IFRS 9, the standard must be applied prospectively, although certain exceptions are allowed.

The Group will adopt IFRS 9 *Financial Instruments* as of 1 January 2018, making use of the exemption that allows an entity not to recalculate prior-years' comparative information regarding changes in classification and measurement, including impairment losses. Differences in the carrying amounts of financial assets and liabilities arising from the adoption of IFRS 9 will be recognized in equity as of 1 January 2018. Additionally, on first-time adoption, an entity may elect whether to continue applying the hedge accounting provisions required by IAS 39 or to adopt those under IFRS 9. The Group intends to continue applying the provisions of IAS 39 during the transition phase.

An in-depth analysis was carried out in 2017 on the impacts from the application of IFRS 9. Based on the findings to date, the Group has estimated a potential negative effect of approximately Euro 1.1 million on "retained earnings" in equity at 1 January 2018 from first-time adoption of the standard. Mention should be made that the Group has yet to complete the analysis and measurement of these effects, which may, therefore, undergo changes until the presentation of the financial figures of 2018.

The above adjustment refers to the booking of further potential impairment losses on financial assets, deriving from the application of the expected credit loss model introduced by IFRS 9, superseding the incurred credit loss model required by IAS 39.

Amendment to IFRS 4: *Applying IFRS 9 Financial instruments with IFRS 4 Insurance Contracts*

In September 2016, the IASB published the document *"Applying IFRS 9 Financial instruments with IFRS 4 Insurance Contracts"*, endorsed by the European Commission in November 2017 and applicable as of 1 January 2018.

The amendments to IFRS 4 authorize entities whose predominant activity is issuing insurance contracts to defer the date of application of IFRS 9 to 1 January 2021 and continue to use IAS 39 Financial Reporting Standard: recognition and measurement. The amendments to IFRS 4 also allow entities that issue insurance contracts to remove part of the accounting mismatches from profit (loss) that may appear when applying IFRS 9 before implementation of IFRS 17. These amendments do not apply to the Group.

IFRS 16 – *Leases*

In January 2016, the IASB published the standard IFRS 16 *Leases*, endorsed by the European Commission in October 2017, which introduces a single lessee accounting model, with no distinction between operating and finance lease. The standard supersedes IAS 17.

All contracts falling under the definition of lease, except for contracts regarding low-value assets and leases with a term of 12 months or less, are recognized in the balance sheet as a right of use asset, offset against a corresponding financial payable. The standard, instead, introduces no material changes for the lessor. The standard introduces a criterion based on the use of an asset to distinguish leases from service contracts, identifying the following distinguishing factors:

- identification of the asset (meaning without the lessor's right to replace the asset);
- the right to obtain substantially all economic benefits deriving from use of the asset;
- the right to determine how and for what purpose the asset is used.

The standard is applicable as of 1 January 2019; early adoption is allowed only for those companies that have applied IFRS 15 *Revenue from Contracts with Customers* in advance.

The Group is currently conducting the necessary analyses to define and assess the potential impact of the application of IFRS 16 on the consolidated financial statements.

Accounting standards, amendments and interpretations yet to be endorsed by the EU and applicable from financial periods after 1 January 2017

IFRS 14 *Regulatory Deferral Accounts*

IFRS 14, issued by the IASB in January 2014, allows an entity, whose activities are subject to rate regulation, to continue applying, on first-time adoption of the IFRS, the previous accounting standards adopted for the amounts relating to rate regulation. IFRS 14 came into force on 1 January 2016, but the European Commission has suspended the endorsement process, pending the new standard on "rate-regulated activities". The standard does not apply to the Group.

Amendment to IFRS 10: *Consolidated financial statements* and IAS 28 *Investments in associates and joint ventures*

The amendments address the inconsistency between IFRS 10 and IAS 28 over the loss of control of a subsidiary that is sold or transferred to an associate or a joint venture.

The amendments require that for a sale or contribution of an asset or a subsidiary to a joint venture or associate, the measure of the gain or loss to be recognized in the financial statements of the seller or contributor depends on whether the asset or subsidiary sold or contributed constitute a business under IFRS 3. If the assets or the subsidiary sold represent a business, the entity shall recognize the gain or loss on the entire investment held; otherwise, the portion of the gain or loss related to the investment still held by the entity shall be eliminated.

With a further adjustment in December 2015, the IASB cancelled the previous date of first-time application set for 1 January 2016, deciding to determine it at a later date.

Amendment to IFRS 2: *Classification and Measurement of Share-based Payment Transactions*

In June 2016, the IASB published the amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions, which aim to clarify the accounting of certain types of share-based payment transactions.

The amendments apply as of 1 January 2018. Early adoption is allowed.

Improvements to IFRS: *2014-2016 Cycle*

On 8 December 2016, the IASB published the document *"Improvements to IFRS: 2014-2016 Cycle"*, the main amendments regard:

- IFRS 1: *First-time Adoption of International Financial Reporting Standards* - The amendments delete a number of exemptions provided by IFRS 1, as they have not served their intended purpose. The amendments apply to financial periods beginning on 1 January 2018.

- IFRS 12: *Disclosure of Interests in Other Entities* - The amendment clarifies the scope of application of IFRS 12, specifying that the information required by the standard also applies to investments classified as held for sale, held for distribution to shareholders or as discontinued operations in accordance with IFRS 5. The purpose of the amendment is to provide consistency between the disclosure required by IFRS 5 and IFRS 12. The amendments apply to financial periods beginning on 1 January 2017.

- IAS 28: *Investments in Associates and Joint Ventures* - The amendment clarifies that the election to measure at fair value through profit or loss (rather than at equity) an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The amendments apply to financial periods beginning on 1 January 2018.

IFRIC Interpretation 22: *Foreign Currency Transactions and Advance Consideration*

In December 2016, the IASB published the document "*IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration*" to provide indications on how an entity shall determine the date of a transaction, and consequently the exchange rate to be used when foreign currency transactions take place, in which payment is made or received in advance.

The amendments apply to financial periods beginning on 1 January 2018.

Amendment to IAS 40 Investment Property: *Transfer of Investment Property*

In December 2016, the IASB published "*Amendment to IAS 40 Investment Property*: *Transfers of Investment Property*", which clarifies the provisions relating to changes in the use of an asset that lead to qualifying an asset that does not constitute an investment property as such or vice versa. This change must be tied to a specific event that has occurred and, thus, should not be limited to a change in Management's intentions for the use of the asset. The amendments apply to financial periods beginning on 1 January 2018. Early adoption is allowed only if the amounts can be estimated.

IFRS 17: *Insurance Contracts*

In May 2017, the IASB published IFRS 17 - Insurance Contracts, which supersedes IFRS 4, issued in 2004. IFRS 17 applies to all types of insurance contracts, regardless of the type of entity that issues them, as well as to certain guarantees and financial instruments with discretionary participation features.

The overall objective of IFRS 17 is to provide a more useful and consistent accounting model for insurance contracts among entities issuing insurance contracts. Unlike the provisions of IFRS 4, which are based mainly on maintaining previous accounting policies, IFRS 17 provides a comprehensive model for insurance contracts covering all relevant accounting aspects.

The standard is applicable to financial periods beginning on 1 January 2021, but early adoption is allowed.

IFRIC 23: *Uncertainty over Income Tax Treatments*

In June 2017, the IASB published the interpretation IFRIC 23 - *Uncertainty over Income Tax Treatments*, which deals with the uncertainties over income tax treatments, envisaging that uncertainties in the determination of tax liabilities or assets be reflected in the financial statements only when the entity is likely to pay or recover the amount in question. The new interpretation applies from 1 January 2019, but early adoption is allowed.

Amendment to IFRS 9 – Financial instruments: *Prepayment Features with Negative Compensation*

In October 2017, the IASB published the amendments to IFRS 9 *Prepayment Features with Negative Compensation*, to allow measurement at amortized cost or at *fair value through other comprehensive income* (OCI) of financial assets with prepayment features through "*negative compensation*".

The amendments apply to financial periods beginning on 1 January 2019.

Amendment to IAS 28 Investments in associates: *Long-term Interests in Associates and Joint Ventures*

The amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*, published by the IASB in October 2017, aim to clarify that IFRS 9 also applies to long-term interests in an associate or joint venture essentially forming part of the net investment in the associate or joint venture.

The IASB also published an example that shows how the provisions of IFRS 9 and IAS 28 apply to long-term interests in an associate or joint venture.

The amendments apply to financial periods beginning on 1 January 2019.

Improvements to IFRS: *2015-2017 Cycle*

In December 2017, the IASB published the document *"Improvements to IFRS: 2015-2017 Cycle"*, the main amendments regard:

- IFRS 3 - *Business Combination and IFRS 11 – Joint Arrangements* - The amendments to IFRS 3 clarify that when an entity obtains control of a joint operation, it must recalculate the fair value of the interest previously held in this joint operation. The amendments to IFRS 11 clarify that when an entity obtains joint control of a joint operation, the entity does not recalculate the fair value of the interest previously held in such joint operation.

- IAS 12 - *Income tax consequences of payments on financial instruments classified as equity* - The proposed amendments clarify how an entity must recognize any tax effects deriving from the distribution of dividends.

- IAS 23 – *Borrowing costs eligible for capitalization* - The amendments clarify that where funds borrowed specifically for the acquisition and/or construction of an asset remain in place even after the asset itself is ready for use or sale, such funds cease to be considered specific and are included in the entity's general funding in order to determine the capitalization rate of the funds borrowed.

The amendments apply to financial periods beginning on 1 January 2019. Early adoption is allowed.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

The following is the analysis of the main items of revenue and cost for the year ended 31 December 2017. All the figures are shown in Euro millions. The comparative figures refer to the Annual Report at 31 December 2016.

Mention should be made that the RCS Group was consolidated in the Cairo Communication Group as from 1 September 2016; the 2016 consolidated income statement of the Cairo Communication Group, therefore, includes cost and revenue components attributable to the RCS Group only for the September-December 2016 four-month period. As a result, the 2017 consolidated income statement figures cannot be directly compared with the corresponding amounts of 2016, presented for comparative purposes in this Annual Report.

As explained in Note 15 below, the income statement and balance sheet figures for the year ended 31 December 2016, presented for comparative purposes, have been adjusted to those presented in the Annual Report at 31 December 2016 to retrospectively reflect the income statement and balance sheet effects resulting from the completion at 30 June 2017 of the determination of the fair value of the RCS Group consolidated assets and liabilities at the acquisition date required in the application of the "acquisition method" under IFRS 3. Mention should be made that, at the date of preparing the Annual Report at 31 December 2016, as the measurement of the fair value had not been completed yet, RCS Group assets and liabilities had been booked on the basis of "provisional" values.

In 2017, the RCS Group contributed Euro 891 million to consolidated revenue and Euro 47.1 million to consolidated profit attributable to the owners of the parent. Consolidation of the RCS Group from 1 January 2016 would have meant higher consolidated revenue of Euro 627.8 million for the year ended 31 December 2016, and a deterioration of consolidated net profit attributable to the owners of the parent of Euro 10 million, including the income statement effects from completion of the determination of the fair value of consolidated assets and liabilities of the RCS Group at acquisition date.

1. Net revenue

The following table shows gross operating revenue, agency discounts and net operating revenue:

Description	31/12/2017	31/12/2016
Gross operating revenue	1,186.2	614.5
Advertising agency discounts	(76.8)	(48.4)
Net operating revenue	**1,109.4**	**566.1**

Revenue is generated mainly in Italy and in Spain. An analysis of revenue by business segment is provided in Note 13.

The breakdown of gross operating revenue can be analyzed as follows:

Description	**31/12/2017**	**31/12/2016**
TV advertising	143.0	145.1
Advertising on print media, Internet and sporting events	491.7	227.1
Other TV revenue	10.0	5.0
Magazine over-the-counter sales and subscriptions	416.1	198.0
VAT relating to publications	(6.3)	(3.0)
Other revenue	131.7	42.3
Total gross operating revenue	**1,186.2**	**614.5**

Consolidated gross revenue amounted to approximately Euro 1,186.2 million, rising sharply versus the prior year, as a result mainly of the consolidation of the RCS Group, which contributed gross revenue of Euro 943.6 million in 2017 (Euro 359.6 million in 2016 only for the September-December four-month period of 2016). The consolidation of the RCS Group from 1 January 2016 would have produced higher gross revenue of Euro 662.6 million for the year ended 31 December 2016, with consolidated gross revenue amounting to Euro 1,277.2 million.

As explained more in detail in the Directors' Report, in the year under review:

- circulation revenue (including the subscription portion) amounted to Euro 416.1 million, Euro 345.1 million of which attributable to the RCS Group and Euro 70 million to Cairo Editore magazines;
- gross advertising sales from Group publications, Group websites and sporting events amounted to Euro 491.7 million, Euro 459 million of which attributable to the RCS Group and Euro 26.1 million to Cairo Editore magazines;
- gross advertising sales on La7 and La7d channels amounted to Euro 137.8 million (Euro 141.8 million in 2016), while the contribution of the Digicast channels of RCS amounted to Euro 2.9 million.

Other revenue, amounting to Euro 131.7 million, mainly includes revenue from the broadcasting of two television channels through the multiplex owned by the subsidiary Unidad Editorial, revenue from sporting events and from direct marketing activities, revenue from betting activities carried out in Spain through the Marca Apuestas platform and other operating revenue.

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2. Other revenue and income

"Other revenue and income", amounting to Euro 26.1 million (Euro 17.2 million in 2016), Euro 20.9 million of which attributable to the RCS Group (Euro 8.4 million in 2016, relating only to the September-December four-month period of 2016), includes revenue from pulp and paper sales, charging of technical advertising costs, rental income, prior-year income, and other items of revenue other than operating revenue.

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3. Change in inventories of finished products

The item, amounting to Euro -0.3 million (Euro -1.2 million in 2016), arises from the use of the magazine sales during the ordinary course of business relating to Group companies.

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4. Raw materials, consumables and supplies

The details of costs for raw materials, consumables and supplies are as follows:

Description	31/12/2017	31/12/2016
Paper	72.7	38.4
Set design materials		0.1
Finished products, equipment and sundry materials	32.8	15.7
Change in inventories of paper, equipment and sundry materials, TV programmes and the like	1.7	2.8
Total raw materials, consumables and supplies	**107.2**	**57.0**

The item, amounting to Euro 107.2 million, includes costs attributable to the RCS Group of Euro 86.5 million (Euro 34.3 million in 2016, relating only to the September-December four-month period of 2016) and refers mainly to the Group's publishing activities.

Costs for "raw materials, consumables and supplies" relating to the RCS Group, amounting to Euro 86.5 million in 2017, dropped by Euro 18 million versus the entire twelve months of 2016 (Euro 104.5 million for the January-December 12 months of 2016), thanks also to cost-saving measures on the purchase of raw materials and to the rationalization and efficiency action on production activities.

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5. Services

The item mainly comprises direct costs of advertising agencies, external processing, consultancies and collaborations mainly for bordereau, TV costs, promotion costs, organization costs and overheads. Service costs are broken down as follows:

Description	31/12/2017	31/12/2016
Direct brokerage costs	52.0	38.0
Technical costs	1.2	0.9
Professional services, consulting and other administrative costs	32.9	15.4
Consultancies and collaborations	50.3	25.9
External processing	95.0	44.2
Transport costs	40.9	14.6
Sub-contracted TV programmes	20.9	22.8
Professional and artistic services and other TV consulting	8.0	9.9
Shooting, crew, editing, and outdoor TV activities	1.0	1.2
News and sport information services and TV news agency	1.7	1.7
TV broadcasting services	0.4	13.0
TV artwork	0.5	0.5
Outdoor TV links	0.8	1.0
Advertising and launch promotion costs	-	1.2
Advertising and promotion	59.0	26.7
Organizational costs and overheads	98.2	39.4
Total services	**462.8**	**256.5**

The item, amounting to Euro 462.8 million (Euro 256.5 million in 2016), includes service costs attributable to the RCS Group of Euro 355.2 million (Euro 134.5 million in 2016, relating only to the September-December four-month period of 2016). These costs relating to the RCS Group refer mainly to direct costs of the advertising agency of Euro 37.9 million (Euro 23.5 million in 2016), to administrative costs of Euro 29.6 million (Euro 11.6 million in 2016), to publishing collaborations of Euro 37.3 million (Euro 13.5 million in 2016), to external publishing and print processing of Euro 78.1 million (Euro 26.8 million in 2016), to transport costs of Euro 40.8 million (Euro 14.5 million in 2016), to advertising and promotion expenses of Euro 50.9 million (Euro 20.1 million in 2016), and to organization costs and overheads of Euro 80.6 million (Euro 24.3 million in 2016).

Service costs attributable to the RCS Group, amounting to Euro 355.2 million in 2017, dropped by Euro 82.3 million versus the entire twelve months of 2016 (Euro 437.5 million for the January-December 12-month period of 2016), as a result mainly of lower agency costs (Euro 29.5 million), of professional and consulting fees (Euro 20.2 million), of costs for subcontracted work (Euro 13.6 million), of advertising, promotion and merchandising expense (Euro 10.6 million) and of transport costs (Euro 5 million). The decrease is a result mainly of the cost-curbing measures adopted on all the RCS Group functions.

Organization costs and overheads include non-recurring expense of Euro 1.3 million (Euro 1.9 million in 2016) attributable to the RCS Group.

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6. Use of third-party assets

The item amounts to Euro 60.9 million (Euro 30.3 million at 31 December 2016) and mainly includes costs for journalistic, sport and TV programme rights, lease payments for property, office equipment and royalties for copyrights.

Description	**31/12/2017**	**31/12/2016**
Lease payments for property	25.3	13.4
Rental of TV studios	0.4	0.4
Rental fees for TV studio equipment	0.6	1.2
TV programme rights	0.4	0.7
Sport rights	0.1	0.1
Journalistic rights	1.7	3.0
Copyrights (SIAE, IMAIE, SCF, AFI)	3.4	3.5
Royalty expense and sundry rights	17.6	6.7
Other costs for use of third-party assets	11.4	1.3
Total costs for use of third-party assets	**60.9**	**30.3**

The item includes costs for use of third-party assets of Euro 49.6 million attributable to the RCS Group (Euro 16.9 million in 2016, relating only to the September-December four-month period of 2016), consisting mainly of lease payments for property of 22.1 million (Euro 9.9 million in 2016), of literary rights and photographic reports of Euro 16.8 million (Euro 5.9 million in 2016), and of operating leases for the use of office equipment and motor vehicles of Euro 10.7 million (Euro 1.1 million in 2016).

Costs for use of third-party assets relating to the RCS Group, amounting to Euro 49.6 million in 2017, dropped by Euro 3.1 million versus the entire twelve months of 2016 (Euro 52.7 million for the

January-December 12 months of 2016), thanks mainly to cost-saving measures on operating leases, rental expense and the purchase of rights.

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7. Personnel expense

The item can be analyzed as follows:

Description	31/12/2017	31/12/2016
Wages and salaries	232.9	104.4
Social security charges	74.1	37.6
Post-employment benefits	11.3	5.0
Other personnel expense	3.1	0.5
Total	**321.4**	**147.5**

Personnel expense amounted to Euro 321.4 million (Euro 147.5 million in 2016) and includes personnel expense of Euro 258.1 million attributable to the RCS Group (Euro 83.6 million in 2016, relating only to the September-December four-month period of 2016).

The item also includes Euro 0.7 million in non-recurring expense.

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8. Amortization, depreciation, provisions and impairment losses

This item can be analyzed as follows:

Description	31/12/2017	31/12/2016
Amortization of intangible assets	39.5	18.1
Depreciation of property, plant and equipment	15.4	6.3
Impairment losses on intangible assets	-	0.6
Allowance for impairment	4.2	0.9
Provisions for risk and charges	7.0	8.3
Total amortization, depreciation, provisions and impairment losses	**66.1**	**34.1**

The item, amounting to Euro 66.1 million (Euro 34.1 million in 2016), includes amortization, depreciation, provisions and impairment losses of Euro 52.3 million attributable to the RCS Group (Euro 26.7 million in 2016, relating only to the September-December four-month period of 2016).

Mention should be made that:

- the acquisition of La7 S.p.A. had been accounted for under IFRS 3, applying the so-called "acquisition method", taking into account the future income capacity of La7 S.p.A. at the acquisition date. This approach had resulted in the full write-down of non-current assets at the date of acquisition of La7, consisting primarily of TV broadcasting rights, and specific technical equipment, whose value was deemed unrecoverable in view of the income prospects of La7 at the acquisition date. In 2017, as a result of impairments made in the allocation of the purchase price of the investment in La7 S.p.A. in the consolidated financial statements, with respect to the separate financial statements of La7 S.p.A., lower levels of depreciation of "property, plant and equipment" - Euro 1.1 million - and amortization of "intangible assets" - Euro 2.2 million - were recognized (Euro 1.6 million and Euro 3.8 million in 2016);
- as explained in Note 15 below, amortization attributable to the amounts allocated to intangible assets (previously unrecognized) with finite useful life under the "acquisition method" in the business combination of RCS, amounted for the period ended 31 December 2017 to Euro 2.2 million;
- in the business combination of RCS, the fair value was confirmed for a number of Spanish magazines, corresponding to the amount booked in the consolidated financial statements of the RCS Group, net of accumulated amortization. These titles, which have residual useful life of 19 years in the consolidated financial statements of the RCS Group, have been valued with finite useful life of 30 years, taking also into account national and international practice. As a result, 2017 reported lower amortization of Euro 0.2 million than the figure recognized in the same period in the Annual Report of the RCS Group.

Completion of the process for determining the fair value of the RCS Group consolidated assets and liabilities within the scope of the "acquisition method" also required the retrospective adjustment of the 2016 comparative income statement figures appearing in this Annual Report. Specifically, the amortization of intangible assets for the period ended 31 December 2016 was adjusted versus the 2016 Annual Report to reflect: (i) the reversal of amortization of the Marca and Expansion titles (Euro 3.3 million) for the September-December four-month period of 2016. These titles, up to 31 December 2016, had been considered with finite useful life in the RCS consolidated financial statements and amortized over a period of 30 years, while at the time of the purchase price allocation of RCS, they were considered with indefinite useful life; (ii) the recognition of amortization for the September-December four-month period of 2016 referring to the amounts allocated to intangible assets booked on purchase price allocation (Euro 0.7 million).

Goodwill and titles with indefinite useful life are not amortized, but are tested at least annually to identify any impairment losses.

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9. Other operating costs

The item can be analyzed as follows:

Description	31/12/2017	31/12/2016
Deductible and non-deductible tax during the year	5.3	1.6
Prior-year expenses	1.0	0.5
Other operating charges	9.9	4.9
Total other operating costs	**16.2**	**7.0**

Other operating expense includes membership fees, contributions, entertainment expense, donations and transaction costs, which increased by Euro 9.2 million versus the prior year, due mainly to the different consolidation period of the RCS Group, which contributed other operating costs of Euro 14 million (Euro 5.4 million relating only to the September-December four-month period of 2016).

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10. Income (loss) on investments

This item can be analyzed as follows:

Description	31/12/2017	31/12/2016
Gains on sale of equity investments	15.3	-
Impairment losses on financial assets	(0.3)	-
Other	1.2	-
Total result of investments	**16.2**	**-**

The item “Gains on sale of equity investments” includes the gain of Euro 14.9 million from the disposal, for a consideration of Euro 20 million, of the 5.08% investment in Istituto Europeo di Oncologia S.r.l..

“Impairment losses on financial assets”, amounting to Euro 0.3 million, refers to the investee Mach2 Books S.p.A..

“Other” includes recovery of previous provisions relating to disposal of investments.

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11. Net financial income and (expense)

Net financial expense amounted to Euro 24.8 million (Euro 9.2 million in 2016) and includes the financial expense of Euro 24.5 million of the RCS Group (Euro 9.2 million in 2016, relating only to the September-December four-month period of 2016), and expense of Euro 0.4 million (Euro 0.2 million in 2016) from the loan granted by Intesa Sanpaolo to the Parent Company as part of the acquisition of the control of RCS. The item also includes interest income on fixed-term deposits on current accounts and on treasury bank accounts used to employ liquidity.

Regarding the RCS Group, net financial expense decreased by Euro 5.9 million versus the entire period of 2016. The reduction is attributable to lower interest expense on bank loans, following the reduction in average debt for the period, and to lower interest rates.

The details of this item are as follows:

Description	31/12/2017	31/12/2016
Interest income on bank accounts and loans	0.7	0.6
Other	1.9	0.8
Total financial income	**2.6**	**1.4**
Bank interest expense	(0.8)	(0.1)
Interest income on loans	(11.5)	(4.9)
Other financial charges	(15.1)	(5.5)
Total financial charges	**(27.4)**	**(10.6)**
Net financial charges	**(24.8)**	**(9.2)**

“Other financial charges” includes financial expense on derivatives, financial expense from discounting and bank expenses and fees.

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12. Taxes for the year

Taxes for the year had a balance of Euro 10.8 million (Euro 10.3 million in 2016) and can be analyzed as follows:

Description	31/12/2017	31/12/2016
IRES	1.3	(1.3)
IRAP	4.4	1.8
Deferred tax income and expenses	5.1	9.8
Total income tax	**10.8**	**10.3**

Completion of the process for determining the fair value of the RCS Group consolidated assets and liabilities within the scope of the “acquisition method" required the retrospective adjustment of the 2016 comparative income statement figures appearing in this Annual Report. Specifically, “Taxes" for the year ended 31 December 2016 was adjusted versus the corresponding item booked in the 2016 Annual Report to reflect the tax effect (i) of the reversal of amortization of the Marca and Expansion titles for the September-December four-month period of 2016, considered until 31 December 2016 with finite useful life in the RCS consolidated financial statements (Euro -0.8 million) and subsequently considered with indefinite useful life; (ii) the booking of amortization for the September-December four-month period of 2016 attributable to the amounts allocated to intangible assets with definite useful life booked on purchase price allocation (a positive Euro 0.2 million).

The reconciliation of the effective and theoretical tax charge can be analyzed as follows:

Description	31/12/2017	31/12/2016
Pre-tax profit	94.1	42.3
Theoretical tax charge	22.6	11.6
Tax effects from the consolidation and the purchase price allocation of La7 and RCS	(7.6)	(2.5)
Tax effects of other permanent differences	(9.2)	(0.6)
IRAP	5.0	1.8
Current and deferred income tax	**10.8**	**10.3**

For a clearer understanding of the reconciliation of the effective and theoretical tax charge, IRAP has not been taken into account as this is not based on pre-tax profit, and this would generate a distorting effect between one year and the other. The theoretical tax charge has been calculated using the current IRES tax rate of 27.5% in 2016 and of 24% in 2017.

13. Segment reporting

For a clearer understanding of the Group’s economic performance, the analysis is focused on the results achieved during the year by each business segment, which has been identified, in compliance with IFRS 8 – *Operating segments*, based on internal reporting which is regularly examined by the directors.

The Group is organized in business units, each in turn structured around specific products and services, and has six reportable business segments:

– **magazine publishing Cairo Editore**, the Group operates as a publisher of magazines and books through its subsidiaries Cairo Editore - which incorporated Editoriale Giorgio Mondadori in 2009 and publishes weeklies “Settimanale DIPIU’” and “DIPIU’ TV”, supplements “Settimanale DIPIU’ e DIPIU’TV Cucina e Stellare”, “Diva e Donna”, “TV Mia”, “Nuovo”, “F”, “Settimanale Giallo”, “Nuovo TV”, “Nuovo e Nuovo TV Cucina” and “Enigmistica Più” and monthlies “For Men Magazine”, “Natural Style”, Bell’Italia”, “Bell’Europa”, “In Viaggio”, “Airone”, “Gardenia”, “Arte” and “Antiquariato” - and Cairo Publishing, publisher of books;

– **RCS**, as explained above, in 2016, following the acquisition of the control of RCS, the Group landed in the dailies publishing segment. RCS, both directly and indirectly through its subsidiaries, publishes and distributes - in Italy and Spain - daily newspapers and magazines (weeklies and monthlies), and is also involved in print media and online advertising sales, and in the distribution of editorial products at newsstands. In Italy, RCS has also minor operations on the pay TV market through its subsidiary Digicast S.p.A. on the TV satellite channels *Lei*, *Dove*, *Caccia* and *Pesca*, and on the web TV channel of *Corriere della Sera* and *La Gazzetta dello Sport*.

  In Spain, it is active with the leading national sports radio *Radio Marca* and the web TV of El Mundo, and broadcasts the two digital TV channels *GOL Television* and *Discovery max* on the Veo multiplex.

  RCS also organizes, through RCS Sport, major world sporting events (the *Giro d’Italia*, the *Dubai Tour*, the *Milano City Marathon* and the *Color Run*), and is well-positioned as a partner in the creation and organization of events through RCS Live. In Spain, through its subsidiary Last Lap, RCS is involved in the organization of mass events;

– **advertising**, the segment managed by Cairo Communication and Cairo Pubblicità, which work together in advertising sales in print media for Cairo Editore and Editoriale Genesis (“Prima Comunicazione”), on TV for La7 and La7d, and Turner Broadcasting (Cartoon Network, Boomerang, CNN), on the Internet and for the sale of stadium advertising spaces at the "Olimpico Grande Torino" football pitch for Torino FC;

- **TV publishing (La7)**, as mentioned earlier, since 1 May 2013 following the acquisition of La7 S.r.l., the Group has operated as a TV publisher of La7 and La7d broadcasters respectively on channel 7 and channel 29 on the digital terrestrial platform;
- **network operator (Cairo Network)** in 2014, the subsidiary Cairo Network took part 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, submitting its binding bid and winning the rights to use a lot of frequencies ("mux") for a period of 20 years. With the acquisition and realization of the mux, the Cairo Communication Group started operations as a network operator;
- **Il Trovatore,** which manages its own search engine and provides technological services mainly within the Group.

2017 (€ millions)	Magazine publishing Cairo Editore	Advertising	TV publishing La7	RCS	Trovatore	Network operator (Cairo Network)	Non-recurring unallocated	Intra and un allocated	Total
Gross operating revenue	90,1	173,1	99,1	943,6	0,9	7,9	-	(128,5)	1.186,2
Advertising agency discounts	-	(24,4)	-	(52,6)	-	-	-	0,2	(76,8)
Net operating revenue	**90,1**	**148,7**	**99,1**	**891,0**	**0,9**	**7,9**	**-**	**(128,4)**	**1.109,4**
Change in inventory	0,0	-	-	(0,3)	-	-	-	-	(0,3)
Other income	2,9	0,8	2,3	20,9	0,0	0,1	-	(0,9)	26,1
Total revenue	**93,0**	**149,5**	**101,4**	**911,6**	**0,9**	**8,0**	**-**	**(129,2)**	**1.135,3**
Production cost	(61,1)	(140,0)	(60,0)	(505,4)	(0,7)	(7,3)	-	129,2	(645,3)
Personnel expense	(19,7)	(9,1)	(34,4)	(258,1)	(0,0)	(0,2)	-	-	(321,4)
Income (expense) from investments measured at equity	-	-	-	2,1	-	-	-	-	2,1
Non-recurring income (expense)	-	-	-	(1,8)	-	-	-	-	(1,8)
Gross operating profit (EBITDA)	**12,2**	**0,4**	**7,0**	**148,4**	**0,1**	**0,6**	**-**	**0,0**	**168,8**
Amortization, depreciation, provisions and impairment losses	(1,1)	(0,4)	(10,1)	(52,3)	0,0	(2,2)	-	-	(66,1)
EBIT	**11,1**	**0,0**	**(3,0)**	**96,0**	**0,1**	**(1,6)**	**-**	**0,0**	**102,7**
Income (loss) on investments	-	-	-	16,2	-	-	-	-	16,2
Net financial income	(0,0)	(0,4)	0,2	(24,4)	(0,0)	(0,1)	-	-	(24,8)
Pre-tax profit	**11,1**	**(0,4)**	**(2,9)**	**87,8**	**0,1**	**(1,7)**	**-**	**0,0**	**94,1**
Income tax	(3,4)	(0,4)	2,1	(9,4)	(0,0)	0,4	-	-	(10,8)
Profit for the period	**7,7**	**(0,8)**	**(0,8)**	**78,4**	**0,1**	**(1,3)**	**-**	**0,0**	**83,3**
Non-controlling interests	**-**	**-**	**-**	**31,3**	**0,0**	**-**	**-**	**-**	**31,3**

2016 (€ millions)	Magazine publishing Cairo Editore	Advertising	TV publishing La7	RCS	Trovatore	Network operator (Cairo Network)	Non-recurring unallocated	Intra and un allocated	Total
Gross operating revenue	97,4	173,7	102,8	359,6	1,0	1,0	-	(120,9)	614,5
Advertising agency discounts	-	(24,8)	-	(23,6)	-	-	-	-	(48,4)
Net operating revenue	**97,4**	**148,9**	**102,8**	**336,0**	**1,0**	**1,0**	**-**	**(120,9)**	**566,1**
Change in inventory	(0,2)	-	-	(1,1)	-	-	-	-	(1,2)
Other income	2,5	0,6	5,5	8,4	0,0	0,1	-	-	17,2
Total revenue	**99,8**	**149,5**	**108,3**	**343,3**	**1,0**	**1,1**	**-**	**(120,9)**	**582,0**
Production cost	(64,7)	(140,4)	(71,6)	(191,4)	(0,8)	(1,1)	-	120,9	(349,2)
Personnel expense	(19,8)	(9,0)	(34,8)	(86,3)	(0,0)	(0,1)	-	-	(150,2)
Income (expense) from investments measured at equity	-	-	-	1,7	-	-	-	-	1,7
Non-recurring income (expense)	-	-	-	3,1	-	-	(1,9)	-	1,2
Gross operating profit (EBITDA)	**15,2**	**0,0**	**1,8**	**70,4**	**0,1**	**(0,1)**	**(1,9)**	**-**	**85,6**
Amortization, depreciation, provisions and impairment losses	(1,3)	(0,4)	(8,5)	(24,0)	0,0	(0,0)	-	-	(34,1)
EBIT	**14,0**	**(0,4)**	**(6,6)**	**46,4**	**0,1**	**(0,1)**	**(1,9)**	**-**	**51,5**
Income (loss) on investments	-	-	-	(0,2)	-	-	-	-	(0,2)
Net financial income	(0,0)	(0,2)	0,5	(9,2)	(0,0)	(0,0)	-	-	(9,0)
Pre-tax profit	**13,9**	**(0,6)**	**(6,2)**	**37,0**	**0,1**	**(0,1)**	**(1,9)**	**-**	**42,3**
Income tax	(4,8)	(0,1)	4,9	(10,7)	(0,0)	0,0	0,5	-	(10,3)
Profit for the period	**9,1**	**(0,7)**	**(1,3)**	**26,3**	**0,1**	**(0,1)**	**(1,4)**	**-**	**32,0**
Non-controlling interests	**-**	**-**	**-**	**10,5**	**0,0**	**-**	**-**	**(0,0)**	**(10,5)**

Management monitors the operating results of business units separately in order to decide on the allocation of resources and the evaluation of results. Transfer prices between business segments are established based on market conditions applicable in transactions with third parties.

Segment statement of financial position figures, specifically, total assets for each reportable segment, do not represent amounts regularly provided to the chief operating decision-maker. These details are, therefore, not provided in these notes in accordance with the amendment of IFRS 8 - Operating segments.

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14. Earnings per share

Earnings per share are calculated dividing the financial results of the Group by the weighted average of outstanding shares, excluding the weighted average of treasury shares. Specifically:

Description	**31/12/2017**	**31/12/2016**
€ millions		
Profit from continuing operations attributable to the owners of the parent	52.0	20.2
Effects from the completion of the purchase price allocation of RCS	-	1.2
Adjusted profit from continuing operations attributable to the owners of the parent	52.0	21.4
Profit for the period	**52.0**	**21.4**
Weighted average number of shares outstanding	134,416,598	134,416,598
Weighted average number of treasury shares	(779)	(779)
Weighted average number of shares to calculate earnings per share	**134,415,819**	**134,415,819**
Euro:		
Earnings per share attributable to continuing operations	0.387	0.160
Net earnings per share	**0.387**	**0.160**

Diluted earnings per share are not calculated as there are no shares with a potential dilutive effect.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

Mention should be made that (i) at the date of preparing the Annual Report at 31 December 2016, the determination of the fair value of the RCS Group consolidated assets and liabilities at the acquisition date required in the application of the "acquisition method" under IFRS 3, was still in progress, and that (ii) given that RCS prepared the first monthly close after the date of completion of the transaction at 31 August 2016, the first-time consolidation date coincided with such date.

As explained in Note 15 below, the balance sheet figures at 31 December 2016, presented for comparative purposes in this Annual Report, have been adjusted to those presented in the Annual Report at 31 December 2016 to retrospectively reflect the operating and financial effects resulting from the completion of the process at acquisition date.

15. Accounting of the acquisition of RCS under IFRS 3

In 2016, Cairo Communication launched a voluntary public purchase and exchange offer on the total ordinary shares of RCS MediaGroup S.p.A., paying a consideration consisting of no. 0.18 Cairo Communication newly-issued shares, in addition to Euro 0.25 acknowledged in cash for each RCS share tendered. A total of no. 311.5 million RCS shares were tendered to the Offer, equal to 59.69% of the RCS share capital, for a total of no. 56 million Cairo Communication shares, in addition to Euro 77.9 million paid in cash. The share capital increase was accounted for in accordance with IFRS 3 – Business Combinations.

The purchase cost of the investment was Euro 304.9 million.

As explained earlier, at 31 December 2016, the Cairo Communication Group had still not completed the measurement of the fair value of the assets/liabilities acquired under the business combination of RCS; therefore, RCS Group assets and liabilities had been booked in the Annual Report at 31 December 2016 on the basis of "provisional" values. Specifically, in the Annual Report at 31 December 2016, the difference between the value of the investment in RCS and the consolidated pro rata equity of the RCS Group at the combination date, amounting to Euro 262.3 million, had been provisionally booked to "intangible assets" under *"RCS Group consolidation difference"* and had not been subject to amortization.

Pursuant to IFRS 3 - *Business Combinations*, the measurement of the fair value of the assets/liabilities acquired must be completed within one year from acquisition date, the period of time considered reasonable for obtaining the necessary information for identifying and measuring the relevant elements for the purposes of applying the standard (specifically: identifiable assets acquired, liabilities assumed, minority interests, consideration paid and resulting goodwill).

Likewise, the allocation of goodwill deriving from the business combination of RCS to the associated assets/cash-generating units had still not been completed.

Determination of the fair value of acquired assets and liabilities

The Half-Year Report at 30 June 2017 contains the completion of the measurement of the fair value of assets/liabilities acquired in the business combination of RCS at 31 August 2016, the date from which the consolidation of the RCS Group in the Cairo Communication Group took effect.

Details of the current amounts of acquired assets and liabilities and adjustment of their respective fair value recognized during purchase price allocation are found below:

€ millions	Consolidated statement of financial position of the RCS Group at 31 August 2016	Reclassifications	Adjustments	Fair value
Property, investment property, plant and equipment	**113.8**	**-**	**-**	**113.8**
Intangible assets	**401.1**	**-**	**368.7**	**769.8**
Trademarks and titles with indefinite useful life	*110.3*	*184.9*	*348.8*	*644.0*
Trademarks and titles with finite useful life	*198.2*	*(184.9)*	*59.0*	*72.3*
Other intangible assets	*92.6*	*-*	*(39.1)*	*53.5*
Investments	**51.5**	**-**	**-**	**51.5**
Non-current financial receivables	4.3	-	-	4.3
Other non-current assets	15.5	-	-	15.5
Deferred tax assets	128.5	-	-	128.5
Total non-current assets	**714.7**	**-**	**368.7**	**1,083.4**
				-
Inventory	20.1	-	-	20.1
Trade receivables	244.4	-	-	244.4
Sundry receivables and other current assets	56.9	-	-	56.9
Other current financial assets	1.0	-	-	1.0
Cash and cash equivalents	17.5	-	-	17.5
Total current assets	**339.9**	**-**	**-**	**339.9**
Total assets	**1,054.6**	**-**	**368.7**	**1,423.3**
Non-current financial payables and liabilities	352.6	-	-	352.6
Post-employment benefits	38.8	-	-	38.8
Provisions for non-current risks and charges	14.7	-	-	14.7
Deferred tax liabilities	57.1	-	120.6	177.7
Other non-current liabilities	3.0	-	-	3.0
Total non-current liabilities	**466.2**	**-**	**120.6**	**586.8**
Current financial payables and liabilities	68.0	-	-	68.0
Trade payables	303.5	-	-	303.5
Tax liabilities	1.4	-	-	1.4
Current portion of provisions for risks and charges	40.2	-	-	40.2
Sundry payables and other current liabilities	99.5	-	-	99.5
Total current liabilities	**512.6**	**-**	**-**	**512.6**
Total liabilities	**978.8**	**-**	**120.6**	**1,099.4**
Net assets acquired	**75.8**	**-**	**248.1**	**323.9**
Price paid	304.9	-	-	304.9
Net assets acquired	(75.8)	-	(248.1)	(323.9)
Net assets acquired and minority interest in goodwill	33.2	-	177.2	210.4
Goodwill	**262.3**	**0.0**	**(70.9)**	**191.4**

The application of the “acquisition method" resulted specifically in the fair value measurement:

- of the trademarks and daily newspaper titles (with their websites and related trademarks), which were considered with indefinite useful life, given their characteristics (market leadership, authority, foundation year) and based on established international practice. Following the measurement: (i) a fair value of Euro 348.8 million was attributed to the Italian trademarks and daily newspaper titles (with their websites and related trademarks) with indefinite useful life, which had no amount booked in the consolidated financial statements of the RCS Group at the acquisition date; and (ii) the amounts booked in the consolidated financial statements of the RCS Group at the acquisition date (Euro 295.2 million) were confirmed for the Spanish daily newspaper titles. Mention should be made that the daily newspaper titles Marca and Expansion, booked for Euro 184.9 million in the consolidated financial statements of the RCS Group at the acquisition date, had been considered at the combination date by RCS with finite useful life and amortized over a period of 30 years, while being considered with indefinite useful life on purchase price allocation;
- of the trademarks and magazine titles (with their websites and related trademarks), including those sold as part of the daily newspaper offering, which were considered with finite useful life, given the product type and based on national and international practice. Specifically, magazine titles were considered with useful life of 30 years. As a result of the measurement: (i) a fair value of Euro 59 million was attributed to the Italian trademarks and magazine titles with finite useful life, which had no amount booked in the consolidated financial statements of the RCS Group at the acquisition date; and (ii) the amounts booked in the consolidated financial statements of the RCS Group at the acquisition date (Euro 13.3 million) were confirmed for the Spanish magazine titles.

Trademarks and daily newspaper and magazine titles (with their websites and related trademarks) were valued by using the Royalty Rate Method.

Additionally, the amounts booked in the consolidated financial statements of the RCS Group at the acquisition date (Euro 53.5 million, Euro 12.5 million of which with indefinite useful life) were confirmed for a number of television and radio licenses and software.

The above measurement process saw the recording at the combination date (replacing the provisionally booked "RCS Group consolidation difference" of Euro 262.3 million at 31 December 2016, and goodwill of Euro 39.1 million previously recognized at 31 December 2016 in the financial statements of RCS) of previously unrecognized intangible assets (mainly trademarks and titles) of Euro 407.8 million, Euro 348.8 million of which with indefinite useful life, and Euro 59 million with finite useful life.

The measurement process resulted in:

- the recognition of deferred tax liabilities for a total of Euro 120.6 million;
- the recognition of the share attributable to non-controlling interests of Euro 177.2 million (Euro 77.2 million of which following the application of the "full goodwill" criterion).

The measurement of the fair value of liabilities acquired in the business combination of RCS produced no adjustments.

Goodwill, amounting to Euro 191.4 million, was determined as the difference between i) the sum (Euro 515.3 million) of the acquisition price (Euro 304.9 million) and the amount attributed to non-controlling interests (Euro 210.4 million) and ii) equity acquired, after all the assets and liabilities under the transaction had been expressed at fair value (Euro 323.9 million). Goodwill arising from the business combination of the RCS Group was allocated to the RCS Group as a whole.

The value attributed by the directors to the trademarks and titles was confirmed by an independent valuation.

Completion of the valuation requirements under IFRS 3 resulted in a different measurement of the assets and liabilities of the RCS Group at the date of the business combination from the measurement made at 31 December 2016, with resulting operating and financial effects, including:

- the amortization of allocated assets considered with finite useful life as from the combination date of 1 September 2016;
- the reversal of amortization attributable to the titles Marca and Expansion, previously valued with finite useful life in the consolidated financial statements of the RCS Group at 31 December 2016, used by Cairo Communication for consolidation purposes and subsequently valued with indefinite useful life following the measurement process under IFRS 3 for the above reasons.

The 2016 consolidated income statement and the consolidated balance sheet at 31 December 2016, presented for comparative purposes, have, therefore, been adjusted against the corresponding statements appearing in the Annual Report at 31 December 2016 to reflect:

a) in intangible assets:
    - the final allocation of "*RCS Group consolidation difference*", which provisionally included at 31 December 2016 the difference - Euro 262.3 million - between the amount of the investment in RCS and the consolidated pro rata equity of the RCS Group;
    - the reallocation of goodwill of Euro 39.1 million previously recorded in the consolidated financial statements of the RCS Group and valuated in the purchase price allocation;

- the recognition of the fair value of Italian trademarks and daily newspaper titles (with their websites and related trademarks) with indefinite useful life of Euro 348.8 million;
- the recognition of the fair value, net of accumulated amortization, from the combination date until 31 December 2016, of the Italian trademarks and magazine titles (with their websites and related trademarks) with finite useful life of Euro 58.3 million;
- the recognition of goodwill (Euro 191.4 million) determined by using the "full goodwill" approach;
- the reversal of amortization in the period from 1 September 2016 to 31 December 2016, attributable to the titles Marca and Expansion with indefinite useful life (considered with finite useful life in the consolidated financial statements at 31 December 2016 of the RCS Group) for Euro 3.3 million;

b) the deferred tax liabilities (Euro 121.2 million) and non-controlling interests (Euro 178 million);

c) in the income statement and in profit attributable to the owners of the Parent included in the balance sheet at 31 December 2016:
   - the reversal of amortization attributable to the titles Marca and Expansion with indefinite useful life (considered with finite useful life in the consolidated financial statements of the RCS Group at 31 December 2016) for Euro 3.3 million (Euro 1.5 million net of tax effects and non-controlling interests);
   - the recognition of amortization of the fair value attributed to previously unrecognized intangible assets with finite useful life of Euro 0.6 million (Euro 0.2 million net of tax effects and non-controlling interests).

16. Property, investment property, plant and equipment

The movements in PPE can be analyzed as follows:

Description	Land and Property	Plant and equipment	Other assets	Assets under development	Investment property	Total
Carrying amounts at 31/12/2016	**26.0**	**51.1**	**13.0**	**-**	**21.3**	**111.4**
Additions	0.2	0.5	0.8	0.1	-	1.7
Amortization/Depreciation	(1.8)	(7.9)	(5.1)	-	(0.6)	(15.4)
Other movements	-	-	-	-	-	-
Carrying amounts at 31/12/2017	**24.4**	**43.7**	**8.7**	**0.1**	**20.7**	**97.7**

The item, amounting to Euro 97.7 million, decreased by Euro 13.7 million versus 31 December 2016, due mainly to period depreciation. Specifically, the item includes:

- land and properties for Euro 24.4 million, relating primarily to owned industrial buildings as well as improvements made to the offices on Via Rizzoli and Via Solferino and to other third-party industrial buildings;
- plant and equipment amounting to Euro 43.7 million, comprised mainly of production facilities for the printing of newspapers and magazines;
- other assets amounting to Euro 8.7 million, comprised mainly of servers for data storage to support publishing and management systems, personal computers, various electronic devices, furniture and fittings;
- investment property for Euro 20.7 million relating mainly to industrial buildings that are currently unused, located in Madrid, Turin and Piacenza.

It should be noted that, in 2017, due to the impairment of property, plant and equipment performed in 2013 as part of the purchase price allocation of the investment in La7 S.p.A. described in Note 8, lower depreciation was recognized on "property, plant and equipment" in the amount of Euro 1.1 million (Euro 1.6 million in 2016).

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17. Intangible assets

The movements in intangible assets can be analyzed as follows:

Description	Television rights	Concessions, licenses, trademarks and publications	Consolidation differences RCS Group	Goodwill	Other intangible assets	Assets under development	Total
Carrying amounts at 31/12/2016	**18.7**	**350.2**	**262.3**	**46.2**	**0.9**	**39.1**	**717.4**
Effects from the completion of the purchase price allocation of RCS	-	**410.4**	**(262.3)**	**152.3**	-	-	**300.4**
Adjusted carrying amounts at 31/12/2016	**18.7**	**760.6**	-	**198.5**	**0.9**	**39.1**	**1,017.8**
Additions	13.0	11.9	-	-	0.5	4.6	30.0
Amortization, depreciation and impairment los	(13.8)	(24.7)	-	-	(1.0)	-	(39.5)
Other movements	1.1	37.5	-	-	-	(38.7)	(0.1)
Carrying amounts at 31/12/2017	**19.0**	**785.3**	-	**198.5**	**0.4**	**5.0**	**1,008.2**

Television rights

“Television rights” includes the investments made by La7 S.p.A. in registration rights (with a duration of over 12 months) for the broadcasting of films, series and soaps, as well as investments by the subsidiary Digicast S.p.A. in rights for audiovisual works and executive productions broadcast on the satellite channels *Lei*, *Caccia e Pesca* and *DOVE*.

Concessions, licenses, trademarks and publications

2017 saw completion of the process for the measurement of the fair value of assets/liabilities acquired in the business combination of RCS; the result was a different measurement of the assets and liabilities of the RCS Group at 1 September 2016 from the measurement at 31 December 2016.

As a result of these valuations, "Concessions, licenses, trademarks and titles" at 31 December 2017 included:

- the fair value attributed to trademarks and daily newspaper titles with indefinite useful life of Euro 644 million, of which Euro 348.8 million attributed to Italian trademarks and daily newspaper titles (with their websites and related trademarks), and Euro 295.2 million attributed to Spanish daily newspaper titles;
- the fair value, net of accumulated amortization at 31 December 2017, of Euro 56.1 million attributed to Italian trademarks and magazine titles with finite useful life, and the fair value of Euro 12.7 million attributed to Spanish magazine titles with finite useful life.

Trademarks and titles with indefinite useful life are not subject to amortization and are tested for impairment at least annually, while trademarks and titles with finite useful life are subject to the amortization process based on the duration of their useful life (30 years) and, in the presence of impairment indicators, tested for impairment to measure any potential indication of impairment with respect to their recoverable value.

RCS publishes the newspapers *Corriere della Sera* and *La Gazzetta dello Sport* in Italy, and the newspapers *El Mundo*, *Marca* and *Expansion* in Spain. In 2017, as explained in the Directors' Report on Operations, *Corriere della Sera*, *La Gazzetta dello Sport*, *Marca* and *Expansión* continue to lead their respective segments, while *El Mundo* is the second most popular general daily in Spain.

At 31 December 2017, "Concessions, licenses, trademarks and titles" also included:

- the rights to use TV frequencies for digital terrestrial broadcasting systems (Euro 35.3 million) acquired in 2014 by Cairo Network and in operation in 2017. The rights to use - for a period of twenty years and amortized over the same period - refer to the 2-SFN multiplex on channels 25 and 59 ("mux");
- the fair value attributed to the titles *Bell'Italia* and *Bell'Europa* (Euro 0.2 million) for which the original time period deemed appropriate for the valuation of the remaining useful life of these titles has been set at twenty years;
- capital expenditure for the acquisition of television licenses (Veo Television) and radio licenses (Radio de Aragon) valued with indefinite useful life (Euro 12.5 million);

- other intangible assets of Euro 24.4 million, consisting mainly of expense incurred for the development of websites and new web projects in Italy and Spain, including new RCS Group Digital Advertising projects and enhancement of Group infrastructures.

Goodwill

The item, amounting to Euro 198.5 million, includes:

- goodwill amounting to Euro 191.4 million, deriving from the business combination of the RCS Group, determined as the residual value of the difference between the cost of the transaction and equity acquired, after all the assets and liabilities under the transaction had been expressed at fair value and allocated to the RCS Group as a whole;
- for Euro 7.1 million, goodwill relating to the cash generating units (CGU) represented by Cairo Editore’s magazine publishing segment, to the advertising segment and to Il Trovatore.

Pursuant to IAS 36, goodwill is tested for impairment at least annually using the methods outlined in the section on the impairment test process.

Assets under development

“Assets under development” includes TV rights for Euro 3.4 million to be exploited in future years, as well as costs incurred for development of information technology projects which are waiting to go into operation.

The decrease versus 31 December 2016 is due mainly to the reclassification in 2017 of the rights to use TV frequencies for digital terrestrial broadcasting systems acquired by the Group company Cairo Network S.r.l. under concessions, licenses, trademarks and titles, following the start of operations.

Impairment test

Pursuant to IAS 36, intangible assets with indefinite life, goodwill and assets under development are not amortized, but are subject to verification of their recoverable value (impairment test) in the presence of events or circumstances that may entail a risk of impairment and, nonetheless, at least annually. Assets with finite useful life are, instead, subject to amortization according to the duration of their useful life and the presence of indicators of a risk of impairment are periodically assessed.

In 2017, Cairo Communication completed the process for determining the fair value of the RCS Group’s consolidated assets and liabilities required in the application of the “acquisition method" under IFRS 3; under IAS 36, the Group completed the allocation of goodwill and intangible assets with indefinite useful life arising from the business combination of the RCS Group to the relating assets/cash generating units.

The following are the assets with indefinite useful life booked in the consolidated financial statements of Cairo Communication following the business combination of the RCS Group, which were tested for impairment at 31 December 2017:

- Italian trademarks/daily newspaper titles referable to the *Corriere della Sera* and *La Gazzetta dello Sport* systems and their related websites, trademarks and events, booked for a total of Euro 348.8 million;
- the *El Mundo*, *Marca* and *Expansion* Spanish daily newspapers, booked for a total of Euro 295.2 million;
- a number of television and radio licenses, booked for a total of Euro 12.5 million.

Goodwill, arising from the business combination of the RCS Group, amounting to Euro 191.4 million, determined as the difference between i) the sum (Euro 515.3 million) of the acquisition price (Euro 304.9 million) and the amount attributed to non-controlling interests (Euro 210.4 million) and ii) equity acquired, after all the assets and liabilities under the transaction had been expressed at fair value (Euro 323.9 million), was allocated for impairment to the RCS Group as a whole.

The recoverable value of Italian and Spanish trademarks/daily newspaper titles and of goodwill arising from the business combination of the RCS Group was determined, with support by an independent expert, in terms of the value in use:

- for Italian trademarks/daily newspaper titles and goodwill arising from the business combination of the RCS Group, based on the 2018 budget approved by the Board of Directors of RCS on 5 March 2018. Cash flows as inferred from the 2018 budget, in compliance with the provisions of IAS 36, were projected for valuation purposes to be constant in nominal terms (growth rate g = 0). These flows were, therefore, discounted on the basis of a rate defined as the weighted average cost of capital (WACC) (equal to 7.62% for Italian trademarks/daily newspaper titles and to 7.83% for goodwill). The 2018 budget was also matched against and found to be consistent with the RCS 2018-2020 plan. No evidence of impairment arose from the analysis performed;
- for Spanish trademarks/daily newspaper titles El Mundo, Marca and Expansion, based on the 2018-2022 forecast cash flows which, for the first year of explicit forecast, correspond to the 2018 budget data approved by the Board of Directors of Unidad Editorial on 23 February 2018, and for the following years, are based on Unidad Editorial’s Plan approved by the Board of Directors on 13 March 2018. Forecast cash flows for 2018-2022, projected for valuation purposes to be constant in nominal terms (growth rate g = 0), were discounted at a rate

considered to represent the weighted average cost of capital (WACC equal to 8.25%). No evidence of impairment arose from the analysis performed.

The values obtained underwent a sensitivity analysis, by varying the discount rate (WACC) and the growth rate of the final value (g), with discrete changes of 50 basis points, and reducing the expected EBITDA values in the year and included in the final value of -15%. None of the scenarios envisaged result in impairment losses.

Regarding the Spanish daily newspaper titles *El Mundo*, *Marca* and *Expansion*, which were attributed, in the context of the business combination of the RCS Group, a fair value equal to the value recorded in the consolidated financial statements of the RCS Group at the acquisition date, RCS prepared an autonomous impairment test with the help of a leading consultancy firm, which indicated no impairment.

The book value of the goodwill relating to the cash generating units represented by Cairo Editore’s magazine publishing segment and the advertising segment (totaling Euro 7 million) was also subject to test and showed no impairment.

Regarding assets with finite useful life, subject to amortization according to the duration of their useful life, no indications suggesting the risk of an impairment loss were identified.

Lastly, mention should be made that in 2017:

- as a result of the impairment of intangible assets made in 2013 in the allocation of the purchase price of the investment in La7, lower amortization was recognized, with respect to the separate financial statements of La7, on “intangible assets" in the amount of Euro 2.2 million (Euro 3.8 million in 2016);
- as explained in Note 15 above, amortization attributable to the amounts allocated to intangible assets with finite useful life recognized under the “acquisition method" in the business combination of RCS, amounted for the year ended 31 December 2017 to Euro 2.2 million.

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18. Investments

The item, amounting to Euro 45.9 million, includes the investments in associates and joint ventures (Euro 42.9 million) and investments in companies that are neither controlling nor trading (Euro 3 million).

The item is broken down as follows:

Description	Carrying amount at 31/12/2016	Acquisitions and share capital increases	Effect of measurement at equity	Disposals and impairment losses	Dividends paid	Carrying amount at 31/12/2017
m-dis Distribuzione Media S.p.A.	3.2	-	0.9	-	(1.4)	2.7
Trento Press Service	0.1	-	-	-		0.1
MDM Milano Distribuzione Media	0.4	-	0.1	-	(0.1)	0.4
Pieroni Distribuzione	0.9	-	0.2	-	(0.1)	1.0
Liguria Press (former Ge-dis)	0.2	-	-	-	-	0.2
To-dis	0.9	0.2	0.6	-	(0.1)	1.6
Escuela de cocina Telva	-	-	-	-		-
Radio Salud	0.3	-	-	-	-	0.3
Bermont Group	41.6	-	0.3	-	(5.3)	36.5
Quibee S.r.l.	0.1	-	-	-		0.1
Planet Sfera SL	0.1	-	-	-		0.1
Total investments in associates and joint ventures	**47.7**	**0.2**	**2.1**	**-**	**(7.1)**	**42.9**
Istituto Europeo di Oncologia	4.1	-	-	(4.1)		-
Mach 2 Libri	0.3	-	-	(0.3)		-
Wouzee Media S.L	0.2	-	-	-		0.2
Ansa	0.2	-	-	-		0.2
H-Farm Ventures	0.2	-	-	-		0.2
Digital Magics	0.1	-	-	-		0.1
Mode e Finance	-	-	-			-
13 TV	0.4	1.5	-	-		1.9
Other minor	0.4	-	-	-		0.4
Total other investments	**5.9**	**1.5**	**-**	**(4.4)**		**3.0**
Total investments	**53.6**	**1.7**	**2.1**	**(4.4)**	**(7.1)**	**45.9**

The item mainly includes the RCS Group investments in Corporacion Bermont (Euro 36.5 million), a Spanish company that deals with the printing of newspapers, magazines and other publishing products, as well as the distribution, marketing, sale and promotion of any type of periodical publication and the investment in Distribuzione Media S.p.A. (Euro 2.7 million), which carries out distribution activities in Italy in the newsstand channel and other authorized points of sale for publishing and non-publishing products (telephone cards and on-line top-ups).

Investments in associates and joint ventures measured at equity amounted to Euro 42.9 million, decreasing in the year by a net Euro 4.8 million. The decrease is attributable mainly to the distribution of dividends by the investees Corporacion Bermont and m-dis Distribuzione Media S.p.A., only partly offset by the positive results in the year and by the increase in the percentage held by To-dis S.r.l., now at 45%.

Investments in other companies, measured at level 3 in the fair value hierarchy pursuant to IFRS 7, amounted to Euro 3 million, decreasing by Euro 2.9 million versus 31 December 2016, as a result of the disposal of the equity investment in Istituto Europeo di Oncologia S.r.l. and of the write-down of the investment in Mach 2 Libri S.p.A..

19. Current and non-current financial receivables

Financial receivables amounted to Euro 4.7 million (Euro 5.6 million at 31 December 2016), of which Euro 3.8 million non-current (Euro 4.4 million at 31 December 2016), and are mainly attributable to loans granted by the RCS Group. The carrying amount, coinciding with the fair value, does not include financial assets deriving from the measurement of derivative financial instruments.

20. Other non-current assets

Other non-current assets, amounting to Euro 15.3 million at 31 December 2017, decreased by Euro 0.2 million versus the prior year, and mainly include non-current receivables due from the tax authorities (Euro 12.7 million) and security deposits (Euro 2.2 million).

21. Deferred tax assets

"Deferred tax assets" relates to the recognition in the consolidated financial statements at 31 December 2017 of deferred tax assets on the temporary differences between the carrying amount of recognized assets and liabilities and their tax values and on the tax benefits deriving from usable tax losses. The item, amounting to Euro 113.3 million, decreased by Euro 12.9 million versus 31 December 2016, and is broken down as follows:

Description	31/12/2017	31/12/2016	Change
Tax losses carried forward	45.2	48.7	(3.5)
Asset valuation reserves	4.3	5.1	(0.8)
Provisions for risks and charges	7.4	7.3	0.1
Deferred deductibility costs	0.7	1.8	(1.1)
Deferred taxation from tax transparency system	1.4	1.4	-
Intangible and tangible fixed assets	5.4	6.3	(0.9)
Valuation of derivative financial instruments	0.2	1.0	(0.8)
Deferred deductibility interest expense	27.9	33.0	(5.1)
Other temporary differences	20.8	21.5	(0.7)
Total deferred tax assets	**113.3**	**126.1**	**(12.8)**

Deferred tax assets are calculated on the basis of the estimate of future taxable income in periods in which the associated temporary differences and the benefits deriving from the use of previous tax losses will be reversed.

22. Inventories

Inventory movements arise entirely in the publishing companies and can be analyzed as follows:

Description	31/12/2017	31/12/2016	Change
Raw materials, consumables and supplies	14.6	15.6	(1.1)
Work-in-progress and bordereau	1.8	2.2	(0.4)
Finished products and books	1.9	2.5	(0.6)
Total	**18.2**	**20.3**	**(2.1)**

Inventories are stated net of the provision for inventory write-down of Euro 1.2 million (Euro 1.3 million at 31 December 2016).

- Raw materials, consumables and supplies

  The item mainly includes paper inventories and is recognized at the lower of purchase or production cost and its presumed realizable value, based on market performance at year end. Mention should be made that the purchase cost for raw materials is determined using the weighted average cost method.

- Work-in-progress and bordereau

  The item includes purchase or production costs incurred for publications to be invoiced, bordereau for services yet to be used, but available for future publications, and work in progress on forthcoming editions.

- Finished products

  The item includes inventories of add-on products and promotional products attributable primarily to the RCS Group, inventories of books of Cairo Publishing, valued at the lower of cost and the presumed realizable value, the inventories of La7 relating to TV programmes produced and awaiting to be aired at 31 December 2017, and to rights on films, soaps, cartoons and documentaries, acquired for a period of less than 12 months, whose available right has not expired and for which airing time during the next financial year is available.

23. Trade receivables

Trade receivables can be analyzed as follows:

Description	31/12/2017	31/12/2016	Change
Trade receivables	331.2	366.9	(35.7)
Allowance for impairment	(38.0)	(50.8)	12.8
Total trade receivables	**293.2**	**316.1**	**(22.9)**

The item, amounting to Euro 293.2 million and shown net of expected returns of newspapers and magazines, decreased by Euro 22.9 million versus the prior year, due mainly to the termination of a number of advertising contracts with third-party publishers.

Trade receivables are stated net of the allowance for impairment that has been determined taking account of both specific collection risks and a general risk of non-collectability based on the ordinary trend of company operations.

The allowance for impairment, amounting to Euro 38 million, decreased by Euro 12.8 million versus 31 December 2016, due to allocations in the period (Euro 4.2 million), net of utilizations (Euro 17 million).

For more details on credit risk, reference should be made to Note 39.

24. Receivables from parents, associates and affiliates

The item, amounting to Euro 18.7 million (Euro 20.9 million at 31 December 2016), mainly includes:

- for Euro 17.5 million, receivables from the associate m-dis Distribuzione Media S.p.A., which carries out distribution activities in Italy in the newsstand channel and at other authorized points of sale for publishing products on behalf of the RCS Group;
- for Euro 0.2 million, receivables due from the affiliate Torino Football Club S.p.A., accrued as part of the contractual relations described in Note 38 below;
- for Euro 0.9 million, the receivable due to some Group companies from the parent U.T. Communications accrued as part of the tax consolidation of the latter, applicable until the end of 2016.

25. Other receivables and other current assets

The item, amounting to Euro 38.9 million (Euro 48.8 million at 31 December 2016), is broken down as follows:

Description	31/12/2017	31/12/2016	Change
Current tax receivables	4,2	7,1	(2,9)
Receivables from tax authorities	4,4	4,4	-
Total tax assets	**8,6**	**11,5**	**(2,9)**
Prepayments and accrued income	10,8	7,3	3,5
Advances to suppliers and agents	12,4	18,8	(6,4)
Other receivables	7,1	11,2	(4,1)
Total sundry receivables and other current assets	**38,9**	**48,8**	**(9,9)**

26. Cash and cash equivalents

The item can be analyzed as follows:

Description	31/12/2017	31/12/2016	Change
Bank accounts	127.2	124.0	3.2
Cash	0.9	0.8	0.1
Total cash and cash equivalents	**128.1**	**124.8**	**3.3**

The consolidated net financial position at 31 December 2017, versus the situation at 31 December 2016, can be summarized as follows:

Net financial debt (€ millions)	31/12/2017	31/12/2016	Change
Cash and cash equivalents	128.1	124.8	3.3
Other current financial assets and financial receivables	0.9	1.2	(0.3)
Current financial assets (liabilities) from derivative instruments	(1.0)	-	(1.0)
Current financial payables	(72.0)	(110.1)	38.1
Current net financial position (net financial debt)	**56.0**	**15.9**	**40.1**
Non-current financial payables	(319.0)	(363.4)	44.4
Non-current financial assets (liabilities) from derivative instruments	(0.1)	(5.1)	5.0
Non-current net financial position (net financial debt)	**(319.1)**	**(368.5)**	**49.4**
Net financial position (Net financial debt) from continuing operations	**(263.1)**	**(352.6)**	**89.5**

Net financial debt at 31 December 2017 improved by Euro 89.5 million versus the prior year, as a result mainly of the cash flows from operations before changes in the net working capital (Euro 155.7 million), and of consideration cashed in from the disposal of investments (Euro 18.1 million). These effects were partly offset by the cash flows used in investing activities in tangible and intangible assets (Euro 27 million), by the distribution of dividends (Euro 6.7 million), by the negative dynamics of net working capital (Euro 29.8 million, of which Euro 21.2 million in non-recurring outlays) and by financial expense and taxes (Euro 28.4 million). The Group's financial liabilities are commented on in Note 28 below.

It is Group policy to invest available cash in on-demand or short-term bank deposits, properly spreading the investments, essentially in banking products, with the prime objective of maintaining a ready liquidity of the said investments. The investment products are selected on the basis of their credit rating, their reliability and the quality of services rendered. The Group also continues to monitor the trend in the credit and capital markets and their possible evolution.

27. Equity

At 31 December 2017, the consolidated equity of the Group was Euro 391.6 million, including profit for the year. Changes in the equity accounts are stated in the Statement of changes in consolidated equity.

The statement of reconciliation of the Parent's equity and profit and Group equity and profit is set out in the Directors' Report.

Mention should be additionally made that, at their Meeting on 8 May 2017, the shareholders approved the distribution of a dividend of Euro 0.05 per share, gross of taxes, for a total of Euro 6.7 million, with coupon detachment date on 22 May 2017.

The subscribed and fully paid up share capital at 31 December 2017 was Euro 7 million, comprising no. 134,416,598 ordinary shares, with no indication of par value.

In accordance with the bylaws, the shares are registered, indivisible and freely transferable. The requirements of representation, legitimization, circulation of the company investment required for securities traded on regulated markets continue to apply. Each share has the right to a proportion of the profit which has been approved for distribution and to a portion of equity on liquidation and also has the right to vote, without limits other than those as defined by the Law. No securities carrying special controlling rights have been issued. No financial instruments have been issued attributing the right to subscribe to newly-issued shares. No share incentive plans are foreseen involving share capital increases, even on a freely allocated basis.

The reconciliation between the number of shares outstanding at 31 December 2017 and those at 31 December 2016 is as follows:

	31/12/2016	Share capital increase	Purchase/Disposal of treasury	31/12/2017
Ordinary shares issued	134,416,598	-	-	134,416,598
Treasury shares	(779)	-	-	(779)
Ordinary shares outstanding	**134,415,819**	**-**	**-**	**134,415,819**

In 2017, as part of the share buy-back plans, no treasury shares were sold or purchased.

At 31 December 2017, Cairo Communication held a total of no. 779 treasury shares, subject to art. 2357-ter of the Italian Civil Code.

28. Non-current payables and financial liabilities

The item, amounting to Euro 319.1 million (Euro 368.5 million at 31 December 2016), includes the non-current portion of bank loans of Euro 314.5 million (Euro 353.4 million at 31 December 2016) and financial payables from lease contracts for Euro 4.3 million (Euro 9.4 million at 31 December 2016). At 31 December 2016, the item had also included Euro 5.1 million relating to the fair value of derivative financial instruments to hedge exposure to interest rate risk.

The main bank loans are explained below:

Intesa San Paolo loan

In July 2016, Cairo Communication concluded a revolving facility agreement with Intesa Sanpaolo for a total amount of Euro 140 million, of which Euro approximately 78.2 million drawn down at 31 December 2017, aimed at funding both the payment of the cash component of the offer for the acquisition of the control of RCS and for other general corporate purposes.

The loan has a duration of 60 months from the date of first use, with a margin of 48 basis points over the Euribor (for a duration corresponding to the relevant interest period), and does not require any collateral or financial covenants, or limits to the distribution of dividends by Cairo Communication.

The loan agreement provides for the customary representations, warranties and commitments typical of such transactions. No commitments are required from Cairo Communication in relation to RCS Group companies (including limits to the disposal of assets or the assumption of financial debt). Additionally, the loan agreement contains a cross-default clause (i.e., call in of the loan in the event of default under other loan agreements) regarding exclusively loan agreements relating to Cairo Communication and certain relevant subsidiaries (Cairo Editore, Cairo Pubblicità and La7), excluding, therefore, the loan agreements related to RCS.

Early repayment is envisaged in the event of a change in control of Cairo Communication, and should the latter cease to directly or indirectly hold an interest of at least 35% in the share capital of RCS.

RCS financial debt

On 4 August 2017, in execution of the term sheet signed on 4 July 2017 with Intesa Sanpaolo S.p.A., RCS concluded a loan agreement with a pool of banks: Banca IMI S.p.A. as Organizing Bank, Agent and Coordinator, Intesa Sanpaolo S.p.A. as Lender and Banca Popolare di Milano S.p.A., Mediobanca – Banca di Credito Finanziario S.p.A., UBI Banca S.p.A. and UniCredit S.p.A. as Organizing Banks and Lenders.

The new agreement provides for a loan of Euro 332 million expiring on 31 December 2022, which will be used to fully refinance the bank loan under the agreement initially concluded by RCS on 14 June 2013 with a pool of banks, amended on several occasions (the latest on 16 June 2016).
The main terms and conditions of the loan are, *inter alia*, the following:

a) the breakdown of the loan into an amortizing term facility of Euro 232 million and a revolving credit line of Euro 100 million;
b) an annual interest rate equal to the sum of the benchmark Euribor and a variable spread, depending on the Leverage Ratio, which is more favourable for the company than the spreads set out in the previous loan;
c) a single covenant based on a Leverage Ratio (i.e., Net debt/EBITDA). The covenant must not exceed (i) 3.45x at 31 December 2017, (ii) 3.25x at 31 December 2018, and (iii) 3x at 31 December of each following year;
d) a repayment schedule for the amortizing term facility, which sets out the repayment of Euro 15 million at 31 December 2017 followed by six-month instalments of Euro 12.5 million.

The loan agreement envisages compulsory early repayment, statements, obligations, withdrawal and materiality threshold clauses that are, altogether, more favourable for RCS than the previous loan agreement. These clauses apply, for instance, to treasury agreements and intra-group loans and guarantees, acquisitions, joint ventures, investments and reorganization, financial debt assumption, transfers and share capital reduction.

In December 2017, the term amortizing line decreased to Euro 208 million, following both the scheduled repayment and the compulsory early repayment of Euro 10 million as a portion of the consideration from the disposal of the investment in IEO (Istituto Europeo di Oncologia). The repayment also resulted in a review, pursuant to the Loan Agreement, of the repayment plan, reducing the scheduled half-year portion from Euro 12.5 million to Euro 11.6 million.

At 31 December 2017, the above covenants had been met.

Cairo Network financial debt

The bank loan (Euro 10 million at 31 December 2017) granted by Unicredit S.p.A. and used by the subsidiary 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.

The loan expires on 31 December 2019 and repayment is made in 20 quarterly instalments of Euro 1,250 thousand, starting from 31 March 2015 and all regularly met to date; early repayment is allowed. The loan calls for the payment of an interest rate equal to the 3-month Euribor plus 0.75 basis points (renegotiated as from 2017) and certain constraints (negative pledges) and commitments (covenants) typical of these transactions. No financial covenants are required.

The loan agreement contains a number of commitment covenants on Cairo Network, which mainly include, until full repayment of the loan and subject to the prior consent of the bank, the commitment (i) not to distribute nor approve the distribution of dividends and/or reserves, (ii) not to take on new financial debt (excluding loans received by the shareholders and the new debt related to the sale of receivables for working capital needs or the issue of new insurance and bank sureties to cover ordinary needs (iii) not to grant guarantees to third parties in the interest of Group companies or loans to Group companies, (iv) not to dispose of company assets and/or investments, (v) not to implement extraordinary corporate transactions, (vi) not to create or allow the creation of liens, pledges or mortgages on own assets. Early repayment is provided for in the event of a change of control of Cairo Network.

29. Post-employment benefits

Post-employment benefits represent a type of employee remuneration, whose payment is deferred until termination of employment. Liabilities relating to post-employment benefits are discounted according to IAS 19, using discount rates ranging from 1.3% to 1.4%.

The composition and movements of this item in the year are shown in the table below:

Description	31/12/2017	31/12/2016	Change
Opening balance	**53.3**	**13.3**	**40.0**
Change in scope of consolidation (RCS)	**-**	**38.8**	(38.8)
Provisions	1.5	0.6	0.9
Interest expense	0.7	0.5	0.2
Profit (loss) from actuarial valuations	(0.7)	1.5	(2.2)
Utilization/other movements	(3.2)	(1.5)	(1.7)
Closing balance	**51.6**	**53.3**	**(1.7)**

The exact administrative headcount of the Group at 31 December 2017 is shown below, broken down by role and geographical area:

Description	31/12/2017	31/12/2016	Change
Senior managers	108	111	(3)
Managers	338	348	(10)
Employees	1,879	1,931	(52)
Journalists	1,531	1,548	(17)
Blue-collar workers	236	235	1
Grand total	**4,092**	**4,173**	**(81)**

Description	31/12/2017	31/12/2016	Change
Italy	2,738	2,788	(50)
Abroad	1,354	1,385	(31)
Grand total	**4,092**	**4,173**	**(81)**

3,321 employees refer to the RCS Group.

30. Provisions for risks and charges and provision for deferred taxes

Movements in the period are shown below:

Description	31/12/2016	Provisions	Utilizations/ Recoveries	Other movements	31/12/2017
Provision for agents' termination benefits	3.2	0.3	(0.1)	-	3.4
Provision for legal disputes	13.9	5.5	(3.5)	(0.3)	15.6
Provisions for personnel	20.2	5.5	(4.8)	(1.2)	19.8
Provisions for future risks and charges under the purchase price allocation of La7 S.r.l.	13.0	-	(2.2)	-	10.8
Provision for other risks and charges	30.6	1.2	(10.3)	(1.8)	19.7
Grand total	**80.9**	**12.5**	**(20.9)**	**(3.3)**	**69.3**

The provision for "Agents' termination benefits" is the amount, subject to actuarial valuations, to be paid to agents as prescribed by law and the applicable collective contracts.

The "Provision for legal disputes", amounting to Euro 15.6 million, relates to potential liabilities deriving from ongoing disputes with third parties, and refers to both civil proceedings and defamation suits related to articles published in the Group's titles.

"Provisions for personnel", amounting to Euro 19.8 million, includes potential liabilities linked to personnel management and the termination of employment relationships and leased staff contracts, and relate to the RCS Group (Euro 14.7 million) and to the subsidiary La7 (Euro 5.1 million).

Mention should be made that, in 2013, as part of the purchase price allocation of La7 S.r.l., a negative fair value had been attributed, by allocating the appropriate "provisions for future risks and charges recognized as part of the purchase price allocation of La7 S.r.l.", with reference to:

a) a number of contracts whose unavoidable costs of meeting contractual obligations exceed the economic benefits expected to be received;

b) specific risk situations related to (i) existing or performed contracts and (ii) pending litigation.

The item has a residual balance of Euro 10.8 million at 31 December 2017.

"Other provisions for risks and charges" mainly relate to contingent liabilities attributable to the RCS Group and to La7, set aside to cover the risk arising from claims for damages originated during the production and airing of TV programmes and from other contractual risks.

Deferred tax liabilities, amounting to Euro 169.7 million (Euro 177.6 million at 31 December 2016), refer almost entirely to the business combination of the RCS Group.

31. Other non-current liabilities

The item, amounting to Euro 0.9 million (Euro 3.3 million at 31 December 2016), is attributable entirely to the RCS Group and includes the long-term portion of social security and tax payables.

32. Current financial payables and liabilities

The item, amounting to Euro 73 million (Euro 110.1 million at 31 December 2016), mainly includes:

- for Euro 62 million (Euro 93.3 million at 31 December 2016), the current portion of the bank loans explained in Note 28 above and bank overdrafts;
- for Euro 4.3 million (Euro 11 million at 31 December 2016), financial payables due to associates belonging to the m-dis Distribuzione Media Group described in Note 38 below;
- for Euro 5.1 million (Euro 5.4 million 31 December 2016), current financial payables from lease contracts;
- for Euro 1 million, the current portion of derivative financial instruments measured at level 2 in the fair value hierarchy pursuant to IFRS 7. The main types of derivative financial instruments are reported below, along with the hedging or trading purposes for which the relevant derivative contracts were stipulated, and the maturity dates of the notional amounts of IRS interest rate derivatives.

Description	31/12/2017		31/12/2016	
	Business	Liabilities	Business	Liabilities
Interest Rate Cap for cash flow hedges	-	-	-	-
Interest Rate Swap for cash flow hedges	-	(1.1)	-	(5.1)
Forward Foreign Exchange Contract for exchange rate hedges	-	-	0.6	-
Total	**-**	**(1.1)**	**0.6**	**(5.1)**

At 31 December 2017, the current portion of financial liabilities arising from the measurement of derivative instruments amounted to Euro 1 million, while the non-current portion amounted to Euro 0.1 million (Euro 5.1 million at 31 December 2016).

Description	Current notional amount	Benchmark	Rate	>0<6 M	>6 M<1 Y	>1 Y<2 Y	>2 Y<5 Y	>5 Y
IRS		Euribor 3 M	0.098%	(63.8)	(50.0)	(80.0)	(50.0)	-

The notional amount of the Interest Rate Swaps at 31 December 2017, relating entirely to the RCS Group, came to Euro 243.8 million, with a contractual fixed rate of 0.098% for Interest Rate Swaps (2.561% in the prior year); the reference parameter of the variable rate is the 3-month Euribor.

The above instruments relating to the RCS Group refer to the hedging of exposure to interest rate risk on short and medium/long-term debt, represented mainly by the loan renegotiated in 2017, and were negotiated specifically for hedging purposes.

At 31 December 2017, there were no foreign currency hedges.

33. Payables to suppliers

The item amounted to Euro 307.7 million, decreasing by Euro 41.9 million versus the prior year, as a result of both the effective operating cost-cutting measures and of lower costs following termination of commercial dealings with a number of third-party publishers. Payables relate entirely to the current year.

34. Payables to parents, associates and affiliates

"Payables to parents, associates and affiliates" amounted to Euro 17.2 million and includes:

- trade payables amounting to Euro 13 million due to some associates of the Bermont Group that handle the printing of newspapers, magazines and other publishing products in Spain;
- trade payables amounting to Euro 1.9 million due to the associate m-dis Distribuzione Media S.p.A., which oversees the distribution of publishing and non-publishing products in the newsstand channel in Italy;
- trade payables amounting to Euro 2.3 million due to the associate Torino Football Club S.p.A. for amounts accrued under the advertising concession contract signed with Cairo Pubblicità S.p.A..

35. Tax liabilities

They include:

Description	31/12/2017	31/12/2016	Change
Current tax payables	1.7	1.0	0.7
Other tax payables	15.1	15.4	(0.3)
Closing balance	**16.8**	**16.4**	**0.4**

The item, amounting to Euro 16.8 million, increased by Euro 0.4 million versus 31 December 2016, and includes tax liabilities attributable to the RCS Group (Euro 14 million).

36. Other payables and other current liabilities

The item can be analyzed as follows:

Description	31/12/2017	31/12/2016	Change
Payables to employees	43.5	53.9	(10.4)
Payables to pension and social security institutions	17.4	19.6	(2.2)
Advances and payments on account on subscriptions	11.6	12.4	(0.8)
Accrued expenses and deferred income	29.7	20.6	9.1
Other payables	12.3	8.2	4.1
Closing balance	**114.5**	**114.7**	**(0.2)**

The item, amounting to Euro 114.5 million, decreased by Euro 0.2 million versus the prior year, and includes current liabilities attributable to the RCS Group of Euro 91.5 million.

Accrued expenses and deferred income increased by Euro 9.1 million, due in particular to the publishing initiatives and sporting events scheduled for the early months of 2018.

37. Commitments, risks and other information

The long-term agreement concluded in 2013 by La7 and Telecom Italia Media Broadcasting S.r.l. (now Persidera) for the supply of transmission capacity provided for the issue by Cairo Communication of a parent company guarantee to cover the payment obligations undertaken by La7, for a maximum amount of Euro 6.6 million (including VAT). In the first half of 2016, La7 exercised the right to withdraw from the agreement effective from 1 January 2017. La7 then also noted the termination of the agreement owing to existing excess charges, effective from 1 September 2016, contested by Persidera. La7 and Cairo Communication therefore summoned Persidera to ascertain its rights. At the hearing held on 1 March, the judge reserved all decisions on the granting or less of the provisionally executory injunctive order put forward by Persidera. Under the provision to lift the reservation, the judge will also set the deadlines by which the parties may file their pleadings for the purposes of dealing with the dispute.

In 2014, the subsidiary Cairo Network took part 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, submitting its binding bid and winning the rights to use a lot of frequencies ("mux") for a period of 20 years. In January 2015, Cairo Network and EI Towers S.p.A. ("EIT") therefore entered into the agreements for the realization and subsequent long-term technical management in full service mode (hospitality, service and maintenance, use of broadcasting infrastructure, etc.) of the mux. The agreements, as reviewed in March 2018, which contain better terms overall for Cairo Network, include, *inter alia*:

- a transitional phase, completed on 31 December 2017, witnessing the realization and start-up of the mux and the initial operations, and an operational phase of the mux lasting 17 years (from 2018 to 2034);
- the right to free withdrawal of Cairo Network starting from 1 January 2025;
- guaranteed coverage of at least 94% of the population, in line with national muxes with greater coverage;
- consideration to EIT:
    - o during the transitional phase (2015-2017), amounting to a total of Euro 11.5 million for the full three-year period;
    - o at full performance (starting from 2018), amounting to Euro 16 million per year,

    these amounts include compensation for the availability of the transmitters;
- an annual consideration from EIT to Cairo Network, starting from 2018, ranging between Euro 0 up to Euro 6 million in the 2018-2022 period, reduced to Euro 5.5 million in the 2023-2027 period and to Euro 5 million from 2028 until expiry, in the event that the available bandwidth on the mux is not fully used by Cairo Network.

Article 1, paragraph 1026 and ensuing paragraphs, of the 2018 Italian Budget (Law no. 205 of 2017) introduced specific provisions for terrestrial TV operators to release 694-790 MHz frequencies ("700 band" – corresponding to channels 49-60) to telephone operators and for the consequent reorganization of the user rights of existing television operators over the remaining television spectrum.

The law states, among other things, that

- by 30 September 2018 the Ministry of Economic Development will assign the user rights to the 700 band to electronic communications operators, to be available starting 1 July 2022. The 700 band frequencies must therefore be completely released by television operators no later than 30 June 2022;

- no later than 31 May 2018, Agcom will approve the new National Frequency Allocation Plan (PNAF) and by 30 June 2018 the Ministry of Economic Development will set the calendar (the "Roadmap") for the progressive release of 700 band frequencies by all network operators holding the relevant user rights nationally and locally. This process will be divided into phases with different timings and procedures for local and national operators, with the early release of some frequencies currently assigned to national operators, and the complete release of all frequencies in the 700 band by 30 June 2022.

Following the release of the 700 band, the UHF band frequencies that will remain internationally allocated to terrestrial television broadcasting will be channels 21 to 48. In view of bilateral agreements with radio-electrically bordering countries signed at the end of 2017, it is forecast that 15 muxes of frequencies will be available, fully coordinated with the foreign countries throughout national territory (14 in the UHF band and 1 in the VHF band), to be assigned partly to local operators and partly to national operators. As a result, the number of national muxes will have to be reduced from the current 20 to significantly fewer. The Budget also stated that national frequency muxes must adopt the DVB-T2 digital terrestrial standard, with a transitional conversion of the user rights to national frequency muxes into broadcasting capacity user rights. Agcom will define the conversion criteria by 30 September 2018, so that the user rights to national muxes can be reallocated.

The MISE is completing negotiations and concluding international agreements. Over the coming months, Agcom is expected to hold public consultations on the PNAF and the criteria for the conversion and reallocation of the remaining muxes to television operators. Similarly, the MISE is required to hold a public consultation on the Roadmap for the release of frequencies during the transitional period.

The effect of the future reorganization of the television band cannot currently be predicted with certainty. Cairo Network has already begun discussions with the relevant public authorities.

The granting of television frequencies to Cairo Network has a backstory and features that are quite different from the rest of the Italian television system. In fact, Cairo Network is the only national operator to have won 20-year user rights to a mux through a competitive, paid-for procedure, as a new, very recent, entrant (2014); this fact will be represented to the relevant authorities, so that the user rights do not undergo substantial changes in the refarming process. Additionally, the awarding follows a tender called to overcome the Community infringement procedure, in the context of which the above international compatibility issue had already been taken into account.

The Cairo Network mux currently allows the use of channel 25 across much of Italy, except for Liguria, Tuscany, Umbria, Sardinia and some of Lazio, where the allocated channel is 59 (in the 700 band). Replacement of this channel with a frequency that has equivalent coverage is expressly provided for.

In view of the new frequency structure, the law also requires the automatic digital terrestrial TV channel numbering plan to be updated, which should be drawn up by Agcom no later than 31 May 2019, together with the procedures for allocating the numbers.

In 2007, as the result of a VAT audit, a number of points had been raised against Cairo Communication S.p.A. for 2002 and subsequent years (2003, 2004, 2005 and 2006) relating to the application if any of VAT on dealing rights recognized to media centres, which had subsequently been included in the final audit reports, which the Company has challenged. For the periods 2002, 2003, 2004, 2005 and 2006, the Provincial Tax Commission of Milan has, in different moments, upheld the Company's appeals. The Regional Tax Commission of Milan upheld the Agency's appeal regarding 2002 (in April 2010), 2003, 2004 and 2005 (in April 2010) and 2006 (for which the tax claim amounted to Euro 63 thousand in addition to penalties of Euro 79 thousand and interest). Cairo Communication has appealed to the Court of Cassation against the judgment regarding 2002, for which the tax claim amounted to Euro 41 thousand in addition to penalties of Euro 51 thousand, and the judgment regarding the subsequent years 2003, 2004 and 2005, for which the tax claim totaled Euro 218 thousand, in addition to penalties of Euro 272 thousand and interest. Two rulings were filed on 9 July 2017, by which the Court of Cassation upheld the claim, referring any recalculation of the penalties to the trial court in accordance with the "favor rei" principle (for instance, moving from the 90% minimum statutory penalty in place of the 100% penalty included in the final audit reports). Cairo Communication has, therefore, filed an appeal to the Regional Tax Commission of Milan to recalculate penalties. A reduced settlement was adopted, instead, for 2006, in accordance with Law Decree no. 50 of 24 April 2017.

In its hearing on 18 October 2010, the Provincial Tax Commission of Milan upheld the appeal filed by Cairo Editore S.p.A. regarding the assessment notice for tax year 2004. The Italian Tax Authorities have filed an appeal with the Regional Tax Commission of Milan against the ruling. In its hearing on 27 May 2013, the Regional Tax Commission of Milan rejected the Agency's Appeal. On 16 June 2014, the Agency filed an appeal with the Supreme Court, and on 25 July 2014, the Company notified its response to the counterparty.

The RCS 2017 Annual Report contains an update to the information on RCS Sport events previously illustrated in the RCS 2015 and 2016 annual reports under "Information on ongoing disputes":

(i) in relation to the acts filed for bringing civil action against a number of defendants, the case has been adjourned to 27 October 2017. At the hearings held on 9 and 16 June 2017, the President of the Court informed that he had been assigned to another task and, as the defendants' attorneys had failed to reach an agreement on continuing the pre-trial work carried out so far, the trial inquiry should be resumed from the beginning due to the changed formation of the Court. The newly-formed Court, after admitting the evidence from witnesses and the documentary proof requested by the parties, has postponed the schedule of hearings and deferred the examination of witnesses. The next hearings are scheduled between 9 March 2018 and 22 June 2018;

(ii) with regard to the writ of summons served on 1 August 2014, under which RCS Sport S.p.A. had filed a liability action against the former CEO and the former General Manager, at the hearing on 28 June 2017, a deferral was jointly asked and the case was adjourned to 26 September 2017. The Court maintained the case ready for final judgement and, following the closing arguments on 24 October 2017, the Parties filed their respective closing briefs and objections. The oral hearing, initially scheduled for 8 March 2018, was postponed to 26 April 2018;

(iii) at end February 2018, a settlement agreement was reached on the ruling concerning above liability actions, with payment of Euro 2,600,000 by the insurance undertaking in favour of RCS Sport. The agreement provides, inter alia, for the waiver, in respect solely of the former CEO and the former General Manager, of the civil action proposed in the criminal proceedings.

(iv) with regard to the challenging of the dismissals notified (appeal rejected by the Court of Milan), the former CEO and former General Manger both filed an appeal. The hearing was set for 19 March 2018 for the former CEO and for 27 March 2018 for the former General Manager;

(v) pending before the Court of Milan against the Bank where the current account is held (a) the action for liability brought by Consorzio Milano Marathon (b) the actions for liability brought by the Amateur Sports Association Milano City Marathon and other associations. The cases were unified and are currently at the preliminary phase. The next hearing is scheduled on 5 July 2018 to continue the expert and preliminary work.

Regarding the agreement on the purchase of the investment held by RCS in RCS Libri S.p.A. concluded on 4 October 2015 with Arnoldo Mondadori Editore S.p.A. (the “Agreement"), as explained in the 2016 Annual Report, a number of claims have been raised. A settlement agreement was reached in 2017, with waiver of mutual claims and no expense borne by the Group. A price adjustment provided for in the agreement, of approximately Euro 2 million, was additionally defined in favour of the buyer. RCS is entitled to an earn-out of up to Euro 2.5 million, subject to the achievement of specific results in the books segment by Arnoldo Mondadori Editore in 2017.

The main guarantees given by the Group are listed below:

- the guarantees and endorsements came to a total of Euro 47.9 million and include the guarantees issued by the RCS Group to Rizzoli Libri S.p.A. (formerly RCS Libri S.p.A., company transferred in 2016) and to its subsidiaries Marsilio S.p.A. and Librerie Rizzoli S.r.l. in favour of the Italian Tax Authorities for VAT credits relating to 2015 for which RCS Mediagroup S.p.A. is jointly obligated. The item also includes the guarantees given to the Public Administration and other public bodies for prize contests, concessions and disputes, as well as in favor of third parties for leases;
- other guarantees amounted to Euro 16 million, Euro 0.8 million of which given to related parties;
- commitments amounted to Euro 2.7 million and include existing and potential contractual commitments relating to personnel, which refer solely to agreements in force at 31 December 2016, subject to contractual clauses at that date under the exclusive control of the Group. These are commitments entered into with related parties for the amount of Euro 2.7 million.

It should also be noted that, as part of the transfers or contributions of investments or business units carried out by the RCS Group, the RCS Group granted guarantees, predominantly of a tax, social security and labor nature, which are still active. These guarantees were issued according to market practices and conditions.

38. Related party transactions

As required by Consob Communication pursuant to art. 114, par. 5 of Legislative Decree no. 58/98, protocol number 13046378 of 27 May 2013, transactions with the related parties of the Group are shown in this note.

The following are identified as related parties:

- the direct and indirect parent entities of Cairo Communication S.p.A., their subsidiaries, associates and affiliates of the Group, as shown in the list attached to this Annual Report ("List of investments of the Group at 31 December 2017"). The Ultimate Parent of the Group is U.T. Communications S.p.A.;
- directors, statutory auditors, key management personnel and their close relations.

Until 4 August 2017, when the RCS Group adopted a new Related Party Procedure, all RCS shareholders (and the associated corporate groups composed of parents and subsidiaries, including indirect, and of jointly-controlled companies) holding an interest with voting rights in RCS exceeding 3%, excluding intermediaries performing asset management activities (where the independence conditions required by the Issuer Regulations are satisfied), were classified voluntarily as related parties.

Details are provided in the following tables on related party transactions, broken down by balance sheet heading. Intercompany relations eliminated in the consolidation process are excluded.

Receivables and financial assets (€ millions)	Trade receivables	Receivables from tax consolidation	Other current financial assets
Parents	-	0.9	-
Associates	17.6	-	-
Other affiliates	0.2	-	-
Other related parties	1.0	-	-
Total	**18.9**	**0.9**	**-**

Payables and financial liabilities (€ millions)	Trade and other payables	Other current financial liabilities	Other non-current financial liabilities
Parents	-	-	-
Associates	14.9	4.4	-
Other affiliates	2.3	-	-
Other related parties	-	-	-
Total	**17.2**	**4.4**	**-**

Revenue and costs (€ millions)	Operating revenue	Operating costs	Financial expense
Parents	-	-	-
Associates	207.3	(40.1)	-
Other affiliates	0.2	(2.9)	-
Other related parties	2.7	(0.3)	(1.0)
Total	**210.2**	**(43.3)**	**(1.0)**

Transactions with associates refer mainly to:

- m-dis Distribuzione Media S.p.A., which operates in Italy as distributor in the newsstand channel for the RCS Group, in respect of which Group companies generated in 2017 revenue of Euro 205.6 million and incurred costs of Euro 11 million, and hold trade receivables of Euro 17.5 million, trade payables of Euro 1.9 million, and current financial payables of Euro 1.5 million;
- the associates in the Bermont Group, in respect of which the Group companies that operate in Spain in the printing of newspapers, magazines and other publishing products (Unidad Editorial Group) generated revenue of Euro 1.5 million and incurred costs of Euro 28.4 million in 2017, and hold trade receivables of Euro 0.1 million and trade payables of Euro 13 million.

Transactions with affiliates refer mainly to:

- 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 2017 of Euro 2.8 million to the concession holder against revenue of Euro 3.6 million net of agency discounts. Cairo Pubblicità earned further commissions of Euro 0.1 million;

- 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 0.1 million.

As from 4 August 2017, following the changes made to the RCS Related Party Procedure, shareholders (and the associated corporate groups composed of parents and subsidiaries, including indirect, and of jointly-controlled companies) holding a stake with voting rights in RCS MediaGroup S.p.A. exceeding 3%, previously included on a voluntary basis, have been excluded from related parties.

Transactions with “other related parties” refer mainly to commercial dealings with the Della Valle, Pirelli, Mediobanca and Unipol Sai groups, in respect of which Group companies generated revenue of Euro 2.7 million and incurred financial expense of Euro 1 million. Trade receivables amounted to Euro 1 million.

Transactions in the year 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 2017, Studio Magnocavallo e Associati, of which lawyer Antonio Magnocavallo, director of the Parent, is a partner, earned fees for professional services provided to companies of the Cairo Communication Group for approximately Euro 0.2 million.

In 2017, Cairo Communication and its subsidiaries other than those belonging to the RCS Group, paid Directors, Statutory Auditors, General Managers and Key Management Personnel fees totaling Euro 3.4 million. This information is analyzed in detail in the appropriate Remuneration Report, prepared pursuant to art. 123 ter of the TUF.

In 2017, the RCS Group paid Directors, Statutory Auditors and Key Management Personnel fees totaling Euro 6.9 million, explained further in Note 40 below.

During the year, no transactions were carried out with members of the Board of Directors, general managers and/or with key management personnel, members of the Board of Statutory Auditors, and the Financial Reporting Manager, further than the fees paid and already shown in this Note.

It should be noted that:

- regarding to Cairo Communication and its subsidiaries other than those belonging to the RCS Group, there are no agreements in place between the Group companies and the directors for any indemnity in the event of resignation or unjust dismissal, or in the event their employment relationship ceases following a takeover bid;

- there are agreements in place between Cairo Communication and Uberto Fornara, subject to non-competition commitments for 18 months following termination of his management relationship with the Parent, for payment during his relationship of a gross annual fee of Euro 100 thousand. In the event of termination of employment before payment, as remuneration for the non-competition agreement, as of May 2014, of the total sum of Euro 450 thousand, to be considered a minimum consideration of the agreement, the Company will pay the manager the difference between such minimum amount and the amount paid until then as remuneration for the agreement.

Regarding RCS, as regards the processes set forth in the event of the cessation or termination of the employment relationship:

- for key management personnel, provision is made contractually for an indemnity of 3.6 times the annual fixed fee in the event of the termination of the employment relationship by means of a unilateral decision by the company, except in the case of just cause, or in the event in which the manager terminates the employment relationship voluntarily in the presence of pre-determined causes indicated in the contract, such as i) loss or reduction in powers, ii) changes of professional position, except where agreed between the parties, iii) substantial changes to company business, iv) loss of hierarchical level, v) change of ownership;
- for another member of key management personnel, provision is made contractually for an indemnity in the event of the termination of the employment relationship by means of a unilateral decision by the company, except in the case of just cause, equal to 3 times the annual fixed fee and the variable fees (MBO).

It should also be noted that there are no succession plans regarding executive directors and that Cairo Communication does not currently have any stock option plans in place.
The procedures adopted by the Group for related party transactions, to ensure transparency and substantial and procedural fairness, made by the Company either directly or through its subsidiaries, are illustrated in the Directors’ Report in the section on the “Report on Corporate Governance”.

39. Risk management

The Group manages capital structure and financial risks in accordance with the asset structure, with the aim of maintaining adequate, consistent credit ratings and capital indicator levels, taking account of the current credit supply trend in Italy and in Spain.

The Group constantly monitors the financial risks connected with its business and those relating to its subsidiaries.

Liquidity risk

Liquidity risk may arise from difficulties in obtaining loans to support operations in accordance with the proper timescales, and, if necessary, to repay loans falling due.

Regarding the RCS Group, on 4 August 2017, in execution of the term sheet signed on 4 July 2017 with Intesa Sanpaolo S.p.A., RCS concluded a loan agreement with a pool of banks, which provides for a loan of Euro 332 million expiring on 31 December 2022, which will be used to fully refinance the bank loan under the agreement initially concluded by RCS on 14 June 2013, amended on several occasions (the latest on 16 June 2016). The main terms and conditions of the loan are, *inter alia*, the following:

e) the breakdown of the loan into an amortizing term facility of Euro 232 million and a revolving credit line of Euro 100 million;
f) an annual interest rate equal to the sum of the benchmark Euribor and a variable spread, depending on the Leverage Ratio, which is more favourable for the company than the spreads set out in the previous loan;
g) a single covenant based on a Leverage Ratio (i.e., Net debt/EBITDA). The covenant must not exceed (i) 3.45x at 31 December 2017, (ii) 3.25x at 31 December 2018, and (iii) 3x at 31 December of each following year;
h) a repayment schedule for the amortizing term facility, which sets out the repayment of Euro 15 million at 31 December 2017 followed by six-month instalments of Euro 12.5 million.

Additionally, mention should be made that in July 2016, as part of the transaction for the acquisition of control of RCS, Cairo Communication had concluded a revolving facility with Intesa Sanpaolo for a total amount of Euro 140 million, aimed at funding both payment of the cash component of the Offer and other general corporate purposes. The loan has a duration of 60 months from the date of first use, with a margin of 48 basis points over the Euribor (for a duration corresponding to the relevant interest period), and does not require any collateral or financial covenants, or limits to the distribution of dividends by Cairo Communication.

Liquidity analysis

The following table summarizes the equity profile of the Cairo Communication Group's current assets and liabilities at 31 December 2017:

Description	31/12/2017	31/12/2016	Change
Trade receivables and other current assets	350.8	385.8	(35.0)
Inventory	18.2	20.3	(2.1)
Trade and other current payables	(510.6)	(546.1)	35.5
Net working capital	**(141.6)**	**(140.0)**	**(1.6)**
Liquid funds	128.1	124.8	3.3
Current financial assets	0.9	1.2	(0.3)
Current financial liabilities	(73.0)	(110.1)	37.1
Current net financial position	**56.0**	**15.9**	**40.1**
Difference between current assets and liabilities	**(85.6)**	**(124.1)**	**38.5**

At 31 December 2017, the difference between current assets and liabilities shows a negative balance of Euro 85.6 million, improving significantly versus the prior year (Euro 124.1 million at 31 December 2016). In this regard, it should be noted that, at 31 December 2017:

- only approximately Euro 78.2 million of the medium-long term revolving credit facility granted by Banca Intesa to Cairo Communication for a total amount of Euro 140 million had been drawn down at 31 December 2017;
- only Euro 50 million out of a total of Euro 100 million of the revolving line set out in the RCS loan agreement had been drawn down at 31 December 2017;
- the publishing companies have a negative net working capital (current assets net of current liabilities, not including financial assets or liabilities) since a portion of the trade receivables (those from sales in the publishing segment) are transformed into cash more quickly than average supplier payment terms;
- the Group attempts to ensure that an appropriate ability to generate cash is maintained, even under the current market conditions.

The following table summarizes the time profile of the Cairo Communication Group's financial assets and liabilities at 31 December 2017 based on the non-discounted collections and payments set out in the contracts (including principal and interest even if not accrued at the reporting date):

31 December 2017	On demand	< 6 months	6 m - 1 year	1-2 years	2-5 years	> 5 years	Total
Non-current financial receivables	-	-	-	0.7	1.5	1.5	3.7
Current financial receivables	0.3	0.1	0.5	-	-	-	0.9
Hedge derivatives	-	-	-	-	-	-	-
Cash and cash equivalents	128.1	-	-	-	-	-	128.1
Interest income	-	0.0	0.0	0.1	0.1	0.1	0.3
Total financial assets	**128.4**	**0.1**	**0.5**	**0.7**	**1.6**	**1.6**	**133.0**
Financial payables to third parties	16.8	34.3	16.6	30.9	99.8	188.4	386.7
Hedge derivatives	-	1.1	0.1	-	(0.1)	-	1.1
Financial payables to Group companies	4.3	-	-	-	-	-	4.3
Interest expense	-	2.6	3.9	6.2	16.5	-	29.2
Total financial liabilities	**21.1**	**38.0**	**20.6**	**37.1**	**116.2**	**188.4**	**421.3**

The amounts shown in this table, unlike those reported in total net financial debt, exclude the fair value of derivatives (Euro -1 million), and include the interest-bearing portion of non-current loan assets (Euro 3.7 million).

Interest rate risk

Interest rate risk consists of potential and higher financial expense stemming from an unfavorable and unexpected change in interest rates. At 31 December 2017, the Group holds exclusively floating rate financial instruments and, therefore, is exposed to said risk.

At 31 December 2017, the RCS Group presented a negative net financial position of Euro 287.4 million:

- interest rate risk management is regulated by specific policies that define the risk management objectives, limits, roles and responsibilities of the different functions involved in the process. The use of derivative instruments for speculative purposes is not permitted;
- at 31 December 2017, approximately 79% of loans and borrowings, including finance lease liabilities, were at a contractually fixed rate, or transformed to such via interest rate swaps (IRS) (43% at 31 December 2016). The hedging objective is pursued using the derivative contracts stipulated with leading financial institutions with a high rating. IRSs transform the floating rate into a fixed one (or vice versa) through the periodic swap, with the financial counterparty, of the difference between the fixed-rate interest (swap rate) and floating-rate interest, both calculated on the contractual notional amount.

By contrast, regarding Cairo Communication and its subsidiaries other than those belonging to the RCS Group, which presented a positive net financial position of Euro 24.3 million, the risk is irrelevant.

Sensitivity analysis

The variable rate financial instruments included in the sensitivity analysis regard cash and cash equivalents, short-, medium- and long-term receivables and payables, totaling a negative Euro 258.9 million at 31 December 2017. Regarding these values, a variation of +/-1% in the reference interest rate curves would result in an increase (decrease) in financial expense of Euro 2.6 million on an annual basis.

This effect would, however, be greatly mitigated by an identical and opposite impact in terms of a variation in the fair value of interest rate derivatives booked to equity (for the component of the hedge beyond the relevant year), and in profit and loss in the assumption of an instantaneous change in the interest rate curve at the reporting date. Hedges of interest rate risk have a notional amount of Euro 243.8 million at 31 December 2017 (Euro 168.8 million at 31 December 2016) and refer solely to Interest Rate Swaps.

Currency risk

Currency risk can be defined as the set of negative effects on balance sheet assets or liabilities arising from changes in exchange rates. Despite its international presence, the Group did not record significant exposure to currency risk, given that the Euro is the functional currency of the main Group business areas.

The exposure to currency risk is limited to certain commercial and financial positions denominated in US dollars, Swiss francs and UAE dirhams of RCS MediaGroup, RCS Sport and Events and La7, for an insignificant amount.

Currency risk management is regulated by specific policies that define the risk management objectives, limits, roles and responsibilities within the process. The use of derivative instruments for speculative purposes is not permitted, i.e. not targeted at pursuing the aforementioned objective.

Credit risk

Credit risk can be defined as the possibility of incurring a financial loss due to the counterparty's failure to fulfil its contractual obligations.

The following table shows the Group's maximum exposure to credit risk for equity components, including derivatives:

Description	31/12/2017	31/12/2016	Change
Trade receivables	293.2	316.1	(22.9)
Current financial receivables	0.9	1.2	(0.3)
Other current assets	46.8	62.4	(15.6)
Non-current financial receivables	3.8	4.4	(0.6)
Other non-current assets	15.3	14.8	0.5
Total receivables and other assets	**360.0**	**398.9**	**(38.9)**
Cash and cash equivalents	128.1	124.8	3.3
Total	**488.1**	**523.7**	**(35.6)**

(1) Other current assets do not include accrued income and prepaid expenses of Euro 10.8 million at 31 December 2017 (Euro 7.3 million at 31 December 2016).

The Group is exposed to credit risk, in relation mainly to trade receivables and, specifically, to advertising sales. This risk is, however, mitigated by the fact that exposure is spread over a large number of customers and that monitoring and control procedures are in place to counter the risk. The Group's publishing segments, on the other hand, present less exposure to credit risk, given that, in relation to publishing revenue, the distribution contracts make provision for an advance payment equal to a highly significant percentage of the estimated sales of each product.

Trade receivables, amounting to Euro 293.2 million at 31 December 2017, refer to the RCS Group for Euro 219.8 million (Euro 271.6 million, including transactions with Group companies and before expected returns) and to Cairo Communication and its subsidiaries (excluding the RCS Group) for Euro 73.4 million. Trade receivables are stated net of an allowance for impairment of Euro 38 million.

Regarding the RCS Group, trade receivables, including transactions with Group companies and before expected returns, amounting to Euro 272.6 million, are broken down as follows: not past due for Euro 184.2 million, past due and not written down for Euro 27.4 million and past due and written down for Euro 61 million (receivables of Euro 92.4 million stated net of an allowance for impairment of Euro 31.4 million). The ageing of trade receivables by due date (past due and not written down), amounting to Euro 27.4 million (Euro 25 million at 31 December 2016), is as follows:

31 December 2017	Past due 0-30 days	Past due 31-60 days	Past due 61-90 days	Past due 91-180 days	Past due 181-360 days	Past due over 360 days	Total
Trade receivables past due and not written down	8.2	3.5	2.1	4.1	3.9	5.6	**27.4**

31 December 2016	Past due 0-30 days	Past due 31-60 days	Past due 61-90 days	Past due 91-180 days	Past due 181-360 days	Past due over 360 days	Total
Trade receivables past due and not written down	7.7	2.1	2.4	3.5	4.8	4.5	**25.0**

Regarding Cairo Communication and its subsidiaries (excluding the RCS Group), trade receivables came to Euro 73.9 million and are stated net of an allowance for impairment of Euro 6.6 million. The ageing of trade receivables by due date at 31 December 2017 versus 31 December 2016 is as follows:

31 December 2017	**Current**	**Past due 30-60 days**	**Past due 61-90 days**	**Past due 91-180 days**	**Past due over 180 days**	**Total**
Trade receivables	68.5	1.9	0.7	1.6	7.8	**80.5**
Allowance for impairment	(2.0)	(0.3)	(0.4)	(0.5)	(3.4)	**(6.6)**
Trade receivables	**66.5**	**1.6**	**0.3**	**1.1**	**4.4**	**73.9**

31 December 2016	**Current**	**Past due 30-60 days**	**Past due 61-90 days**	**Past due 91-180 days**	**Past due over 180 days**	**Total**
Trade receivables	74.3	1.7	0.5	2.6	8.8	**87.9**
Allowance for impairment	(1.4)	(0.2)	(0.2)	(0.5)	(5.1)	**(7.4)**
Trade receivables	**72.9**	**1.5**	**0.3**	**2.1**	**3.7**	**80.5**

Other current and non-current assets include:

- receivables due from the tax authorities amounting to Euro 21.3 million, for which the credit risk is considered to be insignificant in consideration of the nature of the counterparty;
- advances to agents, associates and suppliers amounting to Euro 8.6 million, for which the credit risk is mitigated by possible offsetting with current and/or future related payables.

The credit risk associated with cash and cash equivalents, with a maximum theoretical exposure of Euro 128.1 million (Euro 124.8 million at 31 December 2016), is considered irrelevant, as it is represented by deposits spread across various banks.

Price risk

The Group is not exposed to significant price risks from financial instruments that fall within the scope of application of IAS 39.

40. Board of Directors’ and Board of Statutory Auditors’ fees

Regarding Cairo Communication and its subsidiaries other than those belonging to the RCS Group, information is presented below in aggregate form regarding the fees to Directors, Statutory Auditors, General Managers and Key Management Personnel, according to the various forms in which they were paid:

(€ millions)	Services	Personnel expense	Other current liabilities
Cairo Communication S.p.A.			
Board of Directors - fees	(0.3)	-	-
Board of Statutory Auditors - fees	(0.1)	-	0.1
Chief Executive Officers	(1.0)	(0.6)	0.2
Key management personnel	(0.2)	(1.2)	-
Total Cairo Communication S.p.A.	**(1.6)**	**(1.8)**	**0.3**

This information is analyzed in detail in the appropriate Remuneration Report, prepared pursuant to art. 123 ter of the TUF.

The consolidated financial statements of Cairo Communication at 31 December 2017 also include, for an amount of Euro 6.9 million, the fees to Directors, Statutory Auditors, and Key Management Personnel attributable to the RCS Group, detailed as follows:

Key management personnel (€ millions)	Services	Personnel expense	Other expense	Other current liabilities
Board of Directors - fees	(2.3)	-	(1.0)	1.9
Board of Statutory Auditors - fees	(0.2)	-	-	0.2
Key management personnel	-	(3.4)	-	0.6
Total	**(2.5)**	**(3.4)**	**(1.0)**	**2.7**

Regarding key management personnel as defined by the RCS Group, reference should be made to the list in Section I of the Remuneration Report approved by the Shareholders' Meeting of RCS MediaGroup S.p.A. of 27 April 2017 and published on the website www.rcsmediagroup.it.

Furthermore, commitments to RCS Group key management personnel amounted to Euro 2.7 million and to other related parties to Euro 0.8 million.

41. Transactions deriving from atypical and/or unusual or non-recurring transactions

Pursuant to Consob Communication of 28 July 2006 no. DEM/6064296, it should be noted that in 2013 the Cairo Communication Group did not engage in any atypical and/or unusual transactions as defined by the above Communication.

The consolidated income statement also includes non-recurring expense and income that had a net negative impact on the consolidated result for the year of Euro 1.8 million gross of taxes.

Cairo Communication S.p.A.

Consolidated Financial Statements at 31 December 2017 – Appendices

APPENDIX 1

CAIRO COMMUNICATION GROUP COMPANIES

The following tables list all Cairo Communication Group companies, showing the company name, registered office, quota capital, and shares held, whether directly or indirectly, by the Parent Cairo Communication S.p.A. and by each subsidiary, the consolidation method.

Companies consolidated line-by-line

Company	Registered office	Share capital at 31/12/17	Currency	Investing company	% Direct interest	% Consolid.	Business segment	Consolidation method
Cairo Communication S.p.A.	Milan	6,989,663	Euro				Advertising	Full
Cairo Editore S.p.A.	Milan	1,043,256	Euro	Cairo Communication S.p.A.	99.95	99.95	Publishing	Full
La 7 S.p.A. (former La7 S.r.l.)	Rome	1,020,000	Euro	Cairo Communication S.p.A.	100.00	100.00	TV publishing	Full
Cairo Pubblicità S.p.A.	Milan	2,818,400	Euro	Cairo Communication S.p.A.	100.00	100.00	Advertising	Full
Cairo Network S.r.l.	Milan	5,500,000	Euro	Cairo Communication S.p.A.	100.00	100.00	Network operator	Full
Cairo Publishing S.r.l.	Milan	10,000	Euro	Cairo Communication S.p.A.	100.00	100.00	Publishing	Full
Il Trovatore S.r.l.	Milan	25,000	Euro	Cairo Communication S.p.A.	80.00	80.00	Internet	Full
Diellesei S.r.l. (in liquidation)	Milan	10,000	Euro	Cairo Communication S.p.A.	60.00	60.00	Advertising	Full
Edizioni Anabasi S.r.l.	Milan	10,200	Euro	Cairo Editore S.p.A.	100.00	99.95	Publishing	Full
RCS Mediagroup S.p.A.	Milan	475,134,602	Euro	Cairo Communication S.p.A.	59.69	59.69	Publishing	Full
RCS Factor S.r.l. (in liquidation)	Milan	100,000	Euro	RCS MediaGroup S.p.A.	90.00	53.72	Factoring	Full
RCS Digital Ventures S.r.l.	Milan	118,000	Euro	RCS Mediagroup S.p.A.	100.00	59.69	Multimedia	Full
MyBeautyBox S.r.l.	Milan	10,000	Euro	RCS Digital Ventures S.r.l.	60.00	35.81	Multimedia	Full
Blei S.r.l. (in liquidation)	Milan	1,548,000	Euro	RCS Mediagroup S.p.A.	100.00	59.69	Advertising	Full
RCS Produzioni S.p.A.	Rome	1,000,000	Euro	RCS MediaGroup S.p.A.	100.00	59.69	Production	Full
RCS Produzioni Milano S.p.A.	Milan	1,000,000	Euro	RCS MediaGroup S.p.A.	100.00	59.69	Production	Full
RCS Produzioni Padova S.p.A.	Milan	500,000	Euro	RCS Mediagroup S.p.A.	100.00	59.69	Production	Full
Consorzio Milano Marathon S.r.l.	Milan	20,000	Euro	RCS Sport S.p.A.	100.00	59.69	Services	Full
RCS Sport S.p.A.	Milan	100,000	Euro	RCS Mediagroup S.p.A.	100.00	59.69	Services	Full
Società Sportiva Dilettantistica RCS Active Team–SSD RCS AT a r.l.	Milan	10,000	Euro	RCS Sport S.p.A.	100.00	59.69	Services	Full

Company	Registered office	Share capital at 31/12/17	Currency	Investing company	% Direct interest	% Consolid.	Business segment	Consolidation method
Digital Factory S.r.l.	Milan	500,000	Euro	Digicast S.p.A.	100.00	59.69	Television	Full
Sfera Service S.r.l.	Milan	52,000	Euro	RCS Mediagroup S.p.A.	100.00	59.69	Services	Full
Planet Sfera S.r.l. in liquidation	Milan	40,000	Euro	Sfera Service S.r.l.	51.00	30.44	Services	Full
RCS Edizioni Locali S.r.l.	Milan	1,002,000	Euro	RCS Mediagroup S.p.A.	100.00	59.69	Publishing	Full
Editoriale Del Mezzogiorno S.r.l.	Naples	1,000,000	Euro	RCS Mediagroup S.p.A.	100.00	59.69	Publishing	Full
Trovolavoro S.r.l.	Milan	674,410	Euro	RCS Mediagroup S.p.A.	100.00	59.69	Advertising	Full
Digicast S.p.A.	Milan	211,560	Euro	RCS MediaGroup S.p.A.	100.00	59.69	Television	Full
Canal Mundo Radio Cataluna S.L.	Barcelona	3,010	Euro	Unidad Editorial S.A.	99.99	59.68	Radio	Full
Corporación Radiofónica Informacion y Deporte S.L.U.	Madrid	900,120	Euro	Unedisa Comunicaciones S.L.U.	100.00	59.69	Radio	Full
Ediciones Cónica S.A.	Madrid	432,720	Euro	Unidad Editorial S.A.	99.40	59.33	Publishing	Full
Ediservicios Madrid 2000 S.L.U.	Madrid	601,000	Euro	Unidad Editorial Revistas S.L.U.	100.00	59.69	Publishing	Full
Editora De Medios De Valencia, Alicante Y Castellon S.L.	Valencia	72,055	Euro	Unidad Editorial Informaciòn General S.L.U.	99.99	59.68	Publishing	Full
A Esfera dos Livros S.L.U.	Lisbon	5,000	Euro	La Esfera de los Libros S.L.	100.00	59.69	Publishing	Full
La Esfera de los Libros S.L.	Madrid	48,000	Euro	Unidad Editorial S.A.	75.00	44.77	Publishing	Full
Información Estadio Deportivo S.A.	Sevilla	154,340	Euro	Unidad Editorial Informaciòn Deportiva S.L.U.	84.97	50.72	Publishing	Full
Last Lap S.L.	Madrid	6,010	Euro	Unidad Editorial Informaciòn Deportiva S.L.U.	100.00	59.69	Services	Full
Last Lap Organiçao de eventos S.L.	Lisbon	30,000	Euro	Last Lap S.L.	99.67	59.49	Services	Full
				Unidad Editorial Informaciòn Deportiva S.L.U.	0.33	0.20		
Logintegral 2000 S.A.U.	Madrid	500,000	Euro	Unidad Editorial S.A.	100.00	59.69	Distribution	Full
Rey Sol S.A.	Palma de Mallorca	68,802	Euro	Unidad Editorial S.A.	66.67	39.80	Publishing	Full
				Unidad Editorial Informaciòn General S.L.U.	33.33	19.89		
Unedisa Comunicaciones S.L.U.	Madrid	610,000	Euro	Unidad Editorial S.A.	100.00	59.69	Multimedia	Full
Unedisa Telecomunicaciones S.L.U.	Madrid	1,100,000	Euro	Unidad Editorial S.A.	100.00	59.69	Multimedia	Full
Unedisa Telecomunicaciones de Levante S.L.	Valencia	3,010	Euro	Unedisa Telecomunicaciones S.L.U.	51.16	30.54	Multimedia	Full
Unidad Editorial S.A.	Madrid	125,896,898	Euro	RCS International Newspapers B.V.	73.75	44.02	Publishing	Full
				RCS Investimenti S.p.A.	26.24	15.66		
Unidad Liberal Radio S.L.	Madrid	10,000	Euro	Unidad Editorial S.A.	55.00	32.83	Multimedia	Full
Unidad de Medios Digitales S.L.	Madrid	3,000	Euro	Unidad Editorial S.A.	50.00	29.85	Advertising	Full

Company	Registered office	Share capital at 31/12/17	Currency	Investing company	% Direct interest	% Consolid.	Business segment	Consolidation method
Unidad Editorial Informaciòn Deportiva S.L.U.	Madrid	4,423,043	Euro	Unidad Editorial S.A.	100.00	59.69	Multimedia	Full
Unidad Editorial Informaciòn Economica S.L.U.	Madrid	102,120	Euro	Unidad Editorial S.A.	100.00	59.69	Publishing	Full
Unidad Editorial Formacion S.L.U.	Madrid	1,693,000	Euro	Unedisa Telecomunicaciones S.L.U.	100.00	59.69	Television	Full
Unidad Editorial Informaciòn General S.L.U.	Madrid	102,120	Euro	Unidad Editorial S.A.	100.00	59.69	Publishing	Full
Unidad Editorial Juegos S.A.	Madrid	100,000	Euro	Unidad Editorial S.A.	100.00	59.69	Multimedia	Full
Unidad Editorial Información Regional S.L.	Madrid	4,109,508	Euro	Unidad Editorial S.A.	94.03	56.13	Publishing	Full
				Unidad Editorial Informaciòn General S.L.U.	4.12	2.46		
Unidad Editorial Revistas S.L.U.	Madrid	1,195,920	Euro	Unidad Editorial S.A.	100.00	59.69	Publishing	Full
Veo Television S.A.	Madrid	27,328,752	Euro	Unidad Editorial S.A.	100.00	59.69	Television	Full
Feria Bebe S.L.	Barcelona	10,000	Euro	Sfera Editores Espana S.L.	60.00	35.81	Publishing	Full
Sfera Direct S.L.	Barcelona	3,006	Euro	Sfera Editores Espana S.L.	100.00	59.69	Publishing	Full
Sfera Editores Espana S.L.	Barcelona	174,000	Euro	RCS Mediagroup S.p.A.	100.00	59.69	Publishing	Full
RCS International Newspapers B.V.	Amsterdam	6,250,000	Euro	RCS Mediagroup S.p.A.	100.00	59.69	Publishing	Full
Sfera Editores Mexico S.A.	Colonia Anzures	9,986,200	MXN	RCS Mediagroup S.p.A.	99.99	59.68	Publishing/Services	Full
				Sfera Service S.r.l.	0.01	0.01		
Sfera France SAS	Paris	240,000	Euro	Sfera Editores Espana S.L.	66.70	39.81	Publishing	Full
Hotelyo S.A.	Chiasso	100,000	CHF	RCS Mediagroup S.p.A.	51.00	30.44	Digital	Full
RCS Sports and Events DMCC	Dubai	100,000	Euro	RCS Sport S.p.A.	100.00	59.69	Services	Full

Companies consolidated at equity

Company	Registered office	Share capital at 31/12/17	Currency	Investing company	% Direct interest	Business segment	Consolidation method
Quibee S.r.l.	Turin	15,873	Euro	RCS Digital Ventures S.r.l.	37.00	Digital	Equity
Gold 5 S.r.l. in liquidation	Milan	250,000	Euro	RCS MediaGroup S.p.A.	20.00	Advertising	Equity
Inimm Due S.à.r.l.	Luxembourg	240,950	Euro	RCS MediaGroup S.p.A.	20.00	Real estate	Equity
Planet Sfera SL	Barcelona	40,000	Euro	Sfera Editores Espana S.L.	50.00	Services	Equity
Consorzio C.S.E.D.I.	Milan	103,291	Euro	M-Dis Distribuzione Media S.p.A.	20.00	Distribution	Equity
Liguria Press S.r.l.	Genoa	240,000	Euro	M-Dis Distribuzione Media S.p.A.	40.00	Distribution	Equity
GD Media Service S.r.l.	Milan	789,474	Euro	M-Dis Distribuzione Media S.p.A.	24.00	Distribution	Equity
M-Dis Distribuzione Media S.p.A.	Milan	6,392,727	Euro	RCS MediaGroup S.p.A.	45.00	Distribution	Equity
MDM Milano Distribuzione Media S.r.l.	Milan	611,765	Euro	M-Dis Distribuzione Media S.p.A.	51.00	Distribution	Equity
Pieroni Distribuzione S.r.l.	Milan	750,000	Euro	M-Dis Distribuzione Media S.p.A.	51.00	Distribution	Equity
TO-dis S.r.l.	Milan	510,000	Euro	M-Dis Distribuzione Media S.p.A.	100.00	Distribution	Equity
Trento Press Service S.r.l.	Trento	260,000	Euro	M-Dis Distribuzione Media S.p.A.	36.92	Distribution	Equity
Corporacion Bermont S.L.	Madrid	21,003,100	Euro	Unidad Editorial S.A.	37.00	Print media	Equity
Bermont Catalonia S.A.	Barcelona	60,101	Euro	Corporacion Bermont S.L.	100.00	Print media	Equity
Bermont Impresion S.L.	Madrid	321,850	Euro	Corporacion Bermont S.L.	100.00	Print media	Equity
Calprint S.L.	Valladolid	1,856,880	Euro	Corporacion Bermont S.L.	39.58	Print media	Equity
Escuela de Cocina Telva S.L.	Madrid	61,000	Euro	Ediciones Cónica S.A.	50.00	Training	Equity
Fabripress S.A.U.	Madrid	961,600	Euro	Corporacion Bermont S.L.	100.00	Publishing	Equity
Impresiones y distribuciones de Prensa Europea S.A.	Madrid	60,101	Euro	Corporacion Bermont S.L.	100.00	Print media	Equity
Lagar S.A.	Madrid	150,253	Euro	Corporacion Bermont S.L.	60.00	Print media	Equity
				Bermont Impresion S.L.	40.00		
Madrid Deportes y Espectáculos S.A.	Madrid	600,000	Euro	Unidad Editorial Informaciòn Deportiva S.L.U.	30.00	Multimedia	Equity
Newsprint Impresion Digital S.L.	Tenerife	93,000	Euro	TF Print S.A.	50.00	Print media	Equity
Omniprint S.A.	Santa Maria del Cami	2,790,000	Euro	Corporacion Bermont S.L.	100.00	Print media	Equity
Radio Salud S.A.	Barcelona	200,782	Euro	Unedisa Comunicaciones S.L.U.	30.00	Radio	Equity
Recoprint Dos Hermanas S.L.U.	Madrid	2,052,330	Euro	Corporacion Bermont S.L.	100.00	Print media	Equity
Recoprint Güimar S.L.U.	Madrid	1,365,140	Euro	Corporacion Bermont S.L.	100.00	Print media	Equity
Recoprint Impresiòn S.L.U.	Madrid	3,010	Euro	Corporacion Bermont S.L.	100.00	Print media	Equity
Recoprint Pinto S.L.U.	Madrid	3,652,240	Euro	Corporacion Bermont S.L.	100.00	Print media	Equity
Recoprint Rábade S.L.U.	Madrid	1,550,010	Euro	Corporacion Bermont S.L.	100.00	Print media	Equity
Recoprint Sagunto S.L.U.	Madrid	2,281,920	Euro	Corporacion Bermont S.L.	100.00	Print media	Equity
TF Press S.L.	Santa Cruz de Tenerife	3,005	Euro	Corporacion Bermont S.L.	100.00	Print media	Equity
TF Print S.A.	Santa Cruz de Tenerife	1,382,328	Euro	Corporacion Bermont S.L.	75.00	Print media	Equity
				Bermont Impresion S.L.	25.00		
Unidad Liberal Radio Madrid S.L.	Madrid	10,000	Euro	Unidad Editorial S.A.	45.00	Multimedia	Equity
				Libertad Digital S.A.	55.00		

Investments in other companies

Company	Registered office	Share capital at 31/12/17	Currency	Investing company	% Direct interest	Business segment	Consolidation method
Auditel S.r.l.	Milan	300,000	Euro	La7 S.p.A.	3.33	Television	Cost
Ansa Società Cooperativa	Rome	10,783,362	Euro	RCS Mediagroup S.p.A.	4.38	Publishing	Cost
Cefriel S.c.a.r.l	Milan	1,057,798	Euro	RCS Mediagroup S.p.A.	5.46	Research	Cost
Consuledit S.c.a.r.l. (in liquidation)	Milan	20,000	Euro	RCS Mediagroup S.p.A.	19.55	Publishing	Cost
Emittenti Titoli S.p.A.	Milan	4,264,000	Euro	RCS MediaGroup S.p.A.	1.46	Finance	Cost
H-Farm Ventures S.p.A.	Roncade (TV)	5,003,000	Euro	RCS MediaGroup S.p.A.	1.35	Services	Cost
Immobiliare Editori Giornali S.r.l.	Rome	830,462	Euro	RCS MediaGroup S.p.A.	7.49	Publishing	Cost
ItaliaCamp S.r.l.	Rome	10,000	Euro	RCS MediaGroup S.p.A.	3.00	Services	Cost
SAS Mode et Finance	Paris	6,965,714	Euro	RCS MediaGroup S.p.A.	4.62	Clothing	Cost
Mach 2 Libri S.p.A.	Peschiera B.	646,250	Euro	RCS MediaGroup S.p.A.	19.09	Publishing	Cost
Digital Magics S.p.A.	Milan	4,929,839	Euro	RCS Digital Ventures S.r.l.	0.86	Multimedia	Cost
Mperience S.r.l.	Rome	26,718	Euro	RCS Digital Ventures S.r.l.	2.00	Digital	Cost
Trova La Zampa S.r.l	Milan	10,000	Euro	RCS Digital Ventures S.r.l.	5.00	Digital	Cost
Webentually S.r.l.	Brescia	10,000	Euro	RCS Digital Ventures S.r.l.	15.00	Digital	Cost
The Gira S.r.l.	Milan	11,111	Euro	RCS Sport S.p.A.	9.25	Services	Cost
Consorzio Edicola Italiana	Milan	60,000	Euro	RCS Mediagroup S.p.A.	16.66	Digital	Cost
Onering S.r.l. in liquidation	Montegrotto Terme (PD)	10,000	Euro	RCS Mediagroup S.p.A.	15.00	Digital	Cost
SportPesa Italy S.r.l.	Milan	10,000	Euro	RCS Mediagroup S.p.A.	25.00	Multimedia	Cost
Premium Publisher Network (Consortium)	Milan	19,426	Euro	RCS Mediagroup S.p.A.	20.51	Advertising	Cost
Giorgio Giorgi S.r.l.	Calenzano (FI)	1,000,000	Euro	M-Dis Distribuzione Media S.p.A.	5.00	Distribution	Cost
Cronos Producciones Multimedia S.L.U.	Madrid	3,010	Euro	Libertad Digital Television S.A.	100.00	Publishing	Cost
Digicat Sis S.L.	Barcelona	3,200	Euro	Radio Salud S.A.	25.00	Radio	Cost
Libertad Digital S.A.	Madrid	2,582,440	Euro	Unidad Editorial S.A.	1.16	Multimedia	Cost
Libertad Digital Publicidad y Marketing S.L.U	Madrid	3,010	Euro	Libertad Digital S.A.	100.00	Advertising	Cost
Libertad Digital Television S.A.	Madrid	2,600,000	Euro	Libertad Digital S.A.	99.66	Television	Cost
Medios de Azahar S.A.	Castellon	825,500	Euro	Editora De Medios De Valencia, Alicante Y Castellon S.A.	6.12	Services	Cost
Palacio del Hielo S.A.	Madrid	1,617,838	Euro	Unidad Editorial S.A.	8.53	Multimedia	Cost
Suscribe S.L.	Palma de Mallorca	300,000	Euro	Logintegral 2000 S.A.U.	15.00	Publishing	Cost
Wouzee Media S:L	Madrid	14,075	Euro	Unidad Editorial S.A.	10.00	Multimedia	Cost
13 TV S.A	Madrid	2,953,140	Euro	Unidad Editorial S.A.	0.77	Multimedia	Cost
Yoodeal Ltd	Crowborough	12,004	GBP	RCS Digital Ventures S.r.l.	2.00	Digital	Cost

ANNEX 2

RELATED PARTY TRANSACTIONS

The tables below provide details on related party transactions of the Cairo Communication Group:

Parents (€ millions)	**Trade receivables**	**Other receivables and current assets**	**Receivables from tax consolidation**	**Other current financial assets**
U.T. Communication S.p.A.	-	-	0.9	-
Total	**-**	**-**	**0.9**	**-**

Associates (€ millions)	**Trade receivables**	**Other receivables and current assets**	**Receivables from tax consolidation**	**Other current financial assets**
M-DIS Distribuzione media	17.5	-	-	-
Recoprint Impresiòn S.L.U. (Bermont Group)	0.1	-	-	-
Total	**17.6**	**-**	**-**	**-**

Associates (€ millions)	**Trade payables**	**Other payables and current liabilities**	**Payables from tax consolidation**	**Other current financial liabilities**	**Other non-current financial liabilities**
M-DIS Distribuzione media	1.9	-	-	1.5	-
Planet Sfera	-	-	-	-	-
Fabripress S.A. (Bermont Group)	6.8	-	-	-	-
MDM Milano Distribuzione Media S.r.l.	-	-	-	2.3	-
To-dis S.r.l.	-	-	-	0.6	-
Recoprint Dos Hermanas S.L.U. (Bermont Group)	1.4	-	-	-	-
Recoprint Sagunto S.L.U. (Bermont Group)	0.7	-	-	-	-
Calprint S.L. (Bermont Group)	1.8	-	-	-	-
Omniprint S.A. (Bermont Group)	-	-	-	-	-
Bermont Catalonia S.A. (Bermont Group)	0.9	-	-	-	-
TF Print S.A. (Bermont Group)	0.6	-	-	-	-
Recoprint Ràbade S.L.U. (Bermont Group)	0.7	-	-	-	-
Radio Salud S.A.		-	-	-	-
Recoprint Impresiòn S.L.U. (Bermont Group)		-	-	-	-
Total	**14.9**	**-**	**-**	**4.4**	**-**

Companies subject to the control of parents (€ millions)	Trade receivables	Other receivables and current assets	Receivables from tax consolidation	Other current financial assets
Torino FC S.p.A.	0.2	-	-	-
Total	**0.2**	-	-	-

Companies subject to the control of parents (€ millions)	Trade payables	Other payables and current liabilities	Payables from tax consolidation	Other current financial liabilities	Other non-current financial liabilities
Torino FC S.p.A.	2.3	-	-	-	-
Total	**2.3**	-	-	-	-

Other related parties (€ millions)	Trade receivables	Other receivables and current assets	Receivables from tax consolidation	Other current financial assets
Della Valle Group companies	0.9	-	-	-
Pirelli Group companies	0.1	-	-	-
Total	**1.0**	-	-	-

Other related parties (€ millions)	Trade payables	Other payables and current liabilities	Payables from tax consolidation	Other current financial liabilities	Other non-current financial liabilities
Mediobanca Group companies	-	-	-	-	-
Unipol Sai S.p.A. Group companies	-	-	-	-	-
Della Valle Group companies	-	-	-	-	-
Pirelli Group companies	-	-	-	-	-
Total	-	-	-	-	-

Associates (€ millions)	Operating revenue	Operating costs	Financial income	Financial expense
M-DIS Distribuzione media	205.6	(11.0)	-	-
Fabripress S.A. (Bermont Group)	1.5	(12.3)	-	-
Recoprint Dos Hermanas S.L.U. (Bermont Group)	-	(2.9)	-	-
Recoprint Sagunto S.L.U. (Bermont Group)	-	(2.3)	-	-
Calprint S.L. (Bermont Group)	-	(4.3)	-	-
Omniprint S.A. (Bermont Group)	-	(0.7)	-	-
Bermont Catalonia S.A. (Bermont Group)	-	(2.9)	-	-
TF Print S.A. (Bermont Group)	-	(1.2)	-	-
Recoprint Pinto S.L.U. (Bermont Group)	-	(0.5)	-	-
Recoprint Ràbade S.L.U. (Bermont Group)	-	(1.3)	-	-
Radio Salud S.A.	0.2	(0.7)	-	-
Total	**207.3**	**(40.1)**	-	-

Companies subject to the control of parents (€ millions)	Operating revenue	Operating costs	Financial income	Financial expense
Torino FC S.p.A.	0.2	(2.9)	-	-
Total	**0.2**	**(2.9)**	**-**	**-**

Other related parties (€ millions)	Operating revenue	Operating costs	Financial income	Financial expense
Della Valle Group companies	2.1			
Pirelli Group companies	0.3			
Mediobanca Group companies	-	-	-	(1.0)
Unipol Sai S.p.A. Group companies	0.2	-	-	-
Supplementary Pension Fund for Senior Managers (FIPDIR)	-	(0.3)	-	-
Total	**2.7**	**(0.3)**	**-**	**(1.0)**

Appendix
Information pursuant to Article 149-duodecies of Consob Issuer Regulations

The following summary, prepared pursuant to art. 149-xii of Consob Issuer Regulations, shows the fees for the current period for auditing services and for non-audit services provided by the Audit Firm.

(€ millions)	**Services provided by**	**Fees for the year**
Audit		
Parent - Cairo Communication S.p.A.	KPMG S.p.A.	0.1
Subsidiaries - Italy	KPMG S.p.A.	0.9
Subsidiaries - Abroad	KPMG (*)	0.7
Other		
Parent - Cairo Communication S.p.A. (**)	KPMG S.p.A.	0.1
Subsidiaries (***)	KPMG (*)	0.3
Total		**2.1**

(*) Other companies belonging to the same network as KPMG S.p.A.
(**) Services for gap assessment and methodological support in the mapping of corporate risks and in the data collecting of non-financial information.
(***) Services for methodological support and assistance in the testing phase pursuant to art. 154 bis of the TUF, and in the data collecting phase of non-financial information.

Certification of the consolidated financial statements pursuant to article 81 ter of Consob Regulation no. 11971 of 14 May 1999 as subsequently amended and supplemented

1. The undersigned Urbano Roberto Cairo, as Chairman of the Board of Directors, and Marco Pompignoli, as Financial Reporting Manager of Cairo Communication S.p.A., also in accordance with art. 154 bis, paragraphs 3 and 4 of Legislative Decree no. 58 of 24 February 1998, certify:

• the adequacy of the characteristics of the Company and

• the effective application of administrative and accounting procedures for the preparation of the 2017 consolidated financial statements.

2. We also certify that:

2.1 the consolidated financial statements at 31 December 2017:

a) have been prepared in compliance with International Financial Reporting Standards endorsed by the European Union, pursuant to EEC Regulation no. 1606/2002 of the European Parliament and Council, of 19 July 2002,

b) are consistent with the accounting records and books of the Company,

c) give a true and fair view of the financial position and results of operations of the Issuer and the companies included in the scope of consolidation;

2.2 the Directors' Report contains a reliable analysis on performance and operating results, as well as on the position of the Issuer and on the companies included in the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

Milan, 26 March 2018

For the Board of Directors Chairman	Financial Reporting Manager
………………………………………..	………………………………………….
(Urbano Roberto Cairo)	(Marco Pompignoli)

KPMG S.p.A.
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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
Cairo Communication S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Cairo Communication Group (the "Group"), which comprise the consolidated income statement at 31 December 2017, the consolidated statements of comprehensive income, financial position, cash flows and changes in equity for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Cairo Communication Group as at 31 December 2017 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of Cairo Communication S.p.A. (the "Company") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Allocation of the consideration paid for the acquisition of the RCS MediaGroup Group

Notes to the consolidated financial statements: Note 15 "Accounting of the acquisition of RCS under IFRS 3"

Key audit matter	Audit procedures addressing the key audit matter
On 1 September 2016, the Group completed its acquisition of RCS MediaGroup S.p.A. and its subsidiaries (the "RCS MediaGroup Group"). The Group completed the recognition of the fair value of the assets acquired and liabilities assumed during 2017. The consolidated financial statements at 31 December 2017 present the allocation at 1 September 2016 of the consideration paid for the acquisition of the RCS MediaGroup Group to intangible assets (€368.7 million), deferred tax liabilities (€120.6 million) and goodwill, gross of the portion attributable to non-controlling interests (€191.4 million). An external expert confirmed the fair value of the acquired assets measured by the Group. In measuring the fair value of the net assets acquired, the Group identified the assets and liabilities to which the consideration paid should be allocated and estimated their fair values mainly through a comparable royalty model. The model is very complex and entails the use of estimates which, by their very nature, are uncertain and subjective, about: — the performance indicators calculated by taking into account the general economic performance and that of the Group's sector; — the parameters used to calculate the discount rate.	Our audit procedures included: — obtaining the appraisal of the external expert assisting the Group in measuring the fair value of the assets acquired and liabilities assumed as part of the acquisition of the RCS MediaGroup Group; — involving experts of the KPMG network in the assessment of the reasonableness of the Group's allocation of the consideration paid for the acquisition of the RCS MediaGroup Group; — checking the reasonableness of the valuation methods and application parameters used to measure the fair value of the intangible assets acquired; — checking the consolidation entries made by the Company in relation to the allocation of the consideration paid for the acquisition of the RCS MediaGroup Group; — assessing the appropriateness of the disclosures provided in the notes about the allocation of the consideration paid for the acquisition of the RCS MediaGroup Group.

Key audit matter	Audit procedures addressing the key audit matter
For the above reasons and due to the materiality of the captions affected by the allocation, we believe that the allocation of the consideration paid for the acquisition of the RCS MediaGroup Group is a key audit matter.	

Recoverability of the carrying amount of goodwill and intangible assets with an indefinite useful life

Notes to the consolidated financial statements: Note 17 "Intangible assets"

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements at 31 December 2017 comprise intangible assets of €1,008.2 million, including goodwill of €198.5 million, trademarks and daily newspaper titles with an indefinite useful life of €644.0 million and television and radio licences of €12.5 million. The Group tests the carrying amounts of goodwill and other intangible assets with an indefinite useful life for impairment at least annually and whenever there are indicators of impairment, by comparing them to the related recoverable amounts. The Group calculated the recoverable amount of goodwill and intangible assets with an indefinite useful life by estimating their value in use, using a method that discounts their expected cash flows. The model is very complex and entails the use of estimates which, by their very nature, are uncertain and subjective, about: — the expected cash flows, calculated by taking into account the general economic performance and that of the Group's sector, the actual cash flows for past years and the projected growth rates; — the parameters used to calculate the discount rate. For the above reasons and due to the materiality of the relevant captions, we believe that the recoverability of the carrying	Our audit procedures included: — understanding the process adopted to prepare the impairment tests approved by the Company's board of directors; — understanding the process adopted to prepare the forecasts from which the expected cash flows used for impairment testing have been derived; — analysing the reasonableness of the assumptions used to prepare the forecasts; — checking any discrepancies between the previous year forecast and actual figures, in order to check the accuracy of the estimation process; — comparing the expected cash flows used for impairment testing to those used for the forecasts and analysing the reasonableness of any discrepancies; — involving experts of the KPMG network in the assessment of the reasonableness of the impairment testing model and related assumptions, including by means of comparison with external data and information; — checking the sensitivity analysis presented in the notes in relation to the key assumptions used for impairment testing;

Key audit matter	Audit procedures addressing the key audit matter
amount of goodwill and intangible assets with an indefinite useful life is a key audit matter.	— assessing the appropriateness of the disclosures provided in the notes about the recoverability of goodwill and intangible assets with an indefinite useful life.

Measurement of deferred tax assets and liabilities

Notes to the consolidated financial statements: Notes 21 "Deferred tax assets" and 30 "Provisions for risk and provision for deferred taxes"

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements at 31 December 2017 include deferred tax assets of €113.3 million, including €45.2 million relating to tax losses carried forward and €68.1 million to temporary differences, and deferred tax liabilities of €169.7 million. The Group calculated the recoverable amount of deferred tax assets and the settlement amount of deferred tax liabilities considering many factors, including: — the calculation of temporary differences and tax losses carried forward; — the estimated taxable profits based on forecasts and assumed tax adjustments; — the effect of the domestic tax consolidation scheme. Measuring these captions entails the use of estimates which, by their very nature, are uncertain and subjective. For the above reasons and due to the materiality of the relevant captions, we believe that the measurement of deferred tax assets and liabilities is a key audit matter.	Our audit procedures included: — understanding the process adopted to estimate the recoverable amount of deferred tax assets and the settlement amount of deferred tax liabilities; — analysing the reasonableness of the assumptions used by the Group to prepare the forecasts; — checking any discrepancies between the previous year forecast and actual figures, in order to check the accuracy of the estimation process; — checking the consistency between forecasts and estimated taxable profits; — assessing the appropriateness of the disclosures provided in the notes about the measurement of deferred tax assets and liabilities.

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Cairo Communication S.p.A. for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the Company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 28 April 2011, the shareholders of Cairo Communication S.p.A. appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2011 to 31 December 2019.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The directors of Cairo Communication S.p.A. are responsible for the preparation of the Group's directors' report and report on corporate governance and ownership structure at 31 December 2017 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the Group's consolidated financial statements at 31 December 2017 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the consolidated financial statements of the Cairo Communication Group at 31 December 2017 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254/16

The directors of Cairo Communication S.p.A. are responsible for the preparation of the consolidated non-financial statements pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such consolidated non-financial statements. In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the consolidated non-financial statements separately.

Milan, 29 March 2018

KPMG S.p.A.

(signed on the original)

Francesco Spadaro
Director of Audit

Cairo Communication S.p.A.
Separate financial statements at 31 December 2017

Income statement at 31 December 2017

Euro	Notes	31 December 2017	31 December 2016
Net revenue	1	105,521,825	107,679,263
Other revenue and income	2	1,153,969	273,686
Services	3	(102,690,142)	(104,674,609)
Use of third-party assets	3	(749,363)	(705,407)
Personnel expense	4	(3,156,437)	(3,063,995)
Amortization, depreciation, provisions and impairment losses	5	(262,238)	(242,908)
Other operating costs	3	(146,545)	(106,797)
EBIT		**(328,931)**	**(840,767)**
Net financial income / (expense)	6	(477,416)	(229,388)
Income (loss) on investments	7	8,283,067	8,061,876
Pre-tax profit		**7,476,720**	**6,991,721**
Tax	8	(170,622)	62,869
Profit from continuing operations		**7,306,098**	**7,054,590**
Loss from discontinued operations	9	(47)	(13,017)
Profit for the year		**7,306,051**	**7,041,573**

Statement of comprehensive income at 31 December 2017

	31 December 2017	31 December 2016
Profit for the year	**7,306,051**	**7,041,573**
Other reclassifiable items of the comprehensive income statement	-	-
Other non-reclassifiable items of the comprehensive income statement		
Actuarial profit (loss) from defined benefit plans	(64,675)	(13,527)
Tax effect	15,522	3,247
Total comprehensive income	**7,256,898**	**7,031,292**

Statement of financial position

Euro Assets	Notes	31 December 2017	31 December 2016
Property, plant and equipment	10	332,728	434,712
Intangible assets	11	210,891	253,358
Investments	12	328,925,736	328,132,436
Other non-current financial assets	13	16,812,638	12,762,612
Deferred tax assets	14	3,034,589	3,441,636
Total non-current assets		**349,316,582**	**345,024,754**
Trade receivables	15	669,277	95,813
Receivables from parents	23	155,719	155,719
Receivables from subsidiaries	16	48,394,532	47,271,820
Sundry receivables and other current assets	17	1,946,097	1,327,767
Cash and cash equivalents	18	6,557,226	4,431,218
Total current assets		**57,722,851**	**53,282,337**
Total assets		**407,039,434**	**398,307,091**

Equity and liabilities		31 December 2017	31 December 2016
Share capital	19	6,989,663	6,989,663
Share premium reserve	19	242,802,345	242,802,346
Retained earnings	19	323,737	404,227
Other reserves	19	1,408,587	1,056,508
Treasury shares	19	(2,352)	(2,352)
Profit for the year	19	7,306,051	7,041,573
Total equity		**258,828,031**	**258,291,965**
Non-current financial payables and liabilities	18	78,200,000	78,200,000
Post-employment benefits	20	1,346,887	1,197,042
Provisions for risks and charges	21	177,251	177,204
Total non-current liabilities		**79,724,138**	**79,574,246**
Trade payables	22	3,321,926	6,906,053
Payables to subsidiaries	24	62,909,118	50,454,478
Tax liabilities	25	237,138	762,146
Other current liabilities	26	2,019,083	2,318,203
Total current liabilities		**68,487,265**	**60,440,880**
Total liabilities		**148,211,403**	**140,015,126**
Total equity and liabilities		**407,039,434**	**398,307,091**

Statement of cash flows

Euro/000	2017	2016
CASH AND CASH EQUIVALENTS	**4,431**	**9,039**
OPERATIONS		
Profit	7,306	7,042
Amortization, depreciation, provisions and impairment losses	262	243
Impairment losses on investments	207	161
Net financial income	(8,012)	(7,993)
Income tax	171	(63)
Change in post-employment benefits	150	(91)
Change in provisions for risks and charges	0	13
Cash flow from operations before changes in working capital	**83**	**(689)**
(Increase) decrease in trade and other receivables	(1,907)	5,626
Increase (decrease) in trade and other payables	7,875	8,314
TOTAL CASH FLOW FROM OPERATIONS	**6,050**	**13,251**
Income tax paid	0	(1,818)
Financial expense paid	(478)	(254)
TOTAL NET CASH FROM OPERATIONS (A)	**5,572**	**11,179**
INVESTING ACTIVITIES		
(Acquisition) net disposals of PPE and intangible assets	(118)	(268)
Interest and financial income received	1	23
Dividends received	8,489	8,222
Cash component of consideration recognized in the acquisition of the investment in RCS MediaGroup S.p.A.	0	(77,879)
Net (increase) in other non-current assets	(5,050)	(8,406)
NET CASH USED IN INVESTING ACTIVITIES (B)	**3,322**	**(78,308)**
FINANCING ACTIVITIES		
Re-measurement of defined benefit plans inclusive of tax effect	(48)	(10)
Dividends paid	(6,721)	(15,669)
Increase (decrease) in financial payables	0	78,200
NET CASH USED IN FINANCING ACTIVITIES (C)	**(6,769)**	**62,521**
NET CASH FLOW OF THE YEAR (A) + (B) + (C)	**2,126**	**(4,608)**
NET CASH AND CASH EQUIVALENTS CLOSING BALANCE	**6,557**	**4,431**

Statement of changes in equity

(€ thousands)	Share capital	Share premium reserve	Retained earnings	Other reserves	Treasury shares	Profit for the year	Equity
Balance at 31 December 2014	**4,074**	**41,062**	**397**	**1,057**	**(2)**	**10,586**	**57,173**
Allocation of profit			10,586			(10,586)	0
Dividend distribution		(10,567)	(10,585)				(21,152)
Actuarial profit (loss) from defined benefit plans			20			(20)	0
Total comprehensive profit for the year						8,130	8,130
Balance at 31 December 2015	**4,074**	**30,495**	**414**	**1,057**	**(2)**	**8,110**	**44,148**
Allocation of profit			8,110			(8,110)	0
Dividend distribution		(7,559)	(8,110)				(15,669)
Actuarial profit (loss) from defined benefit plans			(10)			10	0
Share capital increase to service the OPAS on RCS MediaGroup S.p.A.	2,916	224,121					227,037
Ancillary costs to the capital increase net of tax effect		(4,255)					(4,255)
Total comprehensive profit for the year						7,031	7,031
Balance at 31 December 2016	**6,990**	**242,802**	**404**	**1,057**	**(2)**	**7,041**	**258,292**
Allocation of profit			6,689	352		(7,041)	0
Dividend distribution			(6,721)				(6,721)
Actuarial profit (loss) from defined benefit plans			(48)				(48)
Total comprehensive profit for the year						7,306	7,306
Balance at 31 December 2017	**6,990**	**242,802**	**324**	**1,409**	**(2)**	**7,306**	**258,828**

Income statement pursuant to Consob Resolution no. 15519 of 27 July 2006

Euro	31 December 2017	Related parties (*)	% of total	31 December 2016	Related parties (*)	% of total
Net revenue	105,521,825	105,489,773	100.0%	107,679,263	107,598,162	99.9%
Other revenue and income	1,153,969	669,563	58.0%	273,686	238,014	87.0%
Services	(102,690,142)	(95,828,901)	93.3%	(104,674,609)	(96,681,226)	92.4%
- of which non-recurring	*0*			*(1,878,176)*		
Use of third-party assets	(749,363)	(358,000)	47.8%	(705,407)		
Personnel expense	(3,156,437)			(3,063,995)		
Amortization, depreciation, provisions and impairmer	(262,238)			(242,908)		
Other operating costs	(146,545)			(106,797)		
EBIT	**(328,931)**			**(840,767)**		
Net financial income / (expense)	(477,416)			(229,388)		
Income (loss) on investments	8,283,067	8,283,067	100.0%	8,061,876	8,061,876	100.0%
Pre-tax profit	**7,476,720**			**6,991,721**		
Tax	(170,622)			62,869		
Profit from continuing operations	**7,306,098**			**7,054,590**		
Loss from discontinued operations	(47)			(13,017)		
Profit for the year	**7,306,051**			**7,041,573**		

(*) Related party transactions are analyzed in Note 28

Statement of financial position pursuant to Consob Resolution no. 15519 of 27 July 2006

Euro Assets	31 December 2017	Related parties (*)	% of total	31 December 2016	Related parties (*)	% of total
Property, plant and equipment	332,728			434,712		
Intangible assets	210,891			253,358		
Investments	328,925,736	328,925,736	100.0%	328,132,436	328,132,436	100.0%
Non-current financial assets	16,812,638	16,800,000	99.9%	12,762,612	12,750,000	99.9%
Deferred tax assets	3,034,589			3,441,636		
Total non-current assets	**349,316,582**			**345,024,754**		
Trade receivables	669,277	30,500	4.6%	95,813	30,500	31.8%
Receivables from parents	155,719	155,719	100.0%	155,719	155,719	100.0%
Receivables from subsidiaries	48,394,532	48,394,532	100.0%	47,271,820	47,271,820	100.0%
Other receivables and other current assets	1,946,097			1,327,767		
Cash and cash equivalents	6,557,226			4,431,218		
Total current assets	**57,722,851**			**53,282,337**		
Total assets	**407,039,434**			**398,307,091**		

Equity and liabilities	31 December 2017			31 December 2016		
Share capital	6,989,663			6,989,663		
Share premium reserve	242,802,345			242,802,346		
Retained earnings	323,737			404,227		
Other reserves	1,408,587			1,056,508		
Treasury shares	(2,352)			(2,352)		
Profit for the year	7,306,051			7,041,573		
Total equity	**258,828,031**			**258,291,965**		
Non-current financial payables and liabilities	78,200,000			78,200,000		
Post-employment benefits	1,346,887			1,197,042		
Provisions for risks and charges	177,251	142,001	80.1%	177,204	141,942	80.1%
Total non-current liabilities	**79,724,138**			**79,574,246**		
Trade payables	3,321,926	16,554	0.5%	6,906,053	16,554	0.2%
Payables to subsidiaries	62,909,118	62,909,118	100.0%	50,454,478	50,454,478	100.0%
Tax liabilities	237,138			762,146		
Other current liabilities	2,019,083			2,318,203		
Total current liabilities	**68,487,265**			**60,440,880**		
Total liabilities	**148,211,403**			**140,015,126**		
Total equity and liabilities	**407,039,434**			**398,307,091**		

(*) Related party transactions are analyzed in Note 28

NOTES TO THE SEPARATE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Main activities

Cairo Communication S.p.A. (the Parent or the Company) is a joint-stock company listed in the Milan Company Register.

The Cairo Communication Group (the Group) operates as a publisher of magazines and books (Cairo Editore - and its division Editoriale Giorgio Mondadori - and Cairo Publishing), as a TV publisher (La7), as a multimedia advertising broker selling advertising time and space on television, in print media and in stadiums (Cairo Communication and Cairo Pubblicità), as a publisher of dailies and magazines (weeklies and monthlies) in Italy and Spain through RCS MediaGroup, also active in the organization of major world sporting events, as a publisher of electronic content (Il Trovatore), and as a network operator (Cairo Network S.r.l.).

The registered office of Cairo Communication S.p.A. is in Corso Magenta 55, Milan. The administrative offices, the advertising sales units and Il Trovatore and Cairo Network are located in Via Rizzoli 8. The magazine publishing business is managed at the offices of Cairo Editore in Corso Magenta 55, Milan. The publishing business of La7 is managed mainly in Rome at the registered offices and the TV studios of La7 S.p.A. (former La7 S.r.l.) in Via della Pineta Sacchetti 229 and Via Novaro 32, respectively. RCS activities are mainly carried out in Via Rizzoli 8 and Via Solferino 28, Milan, and in Avenida San Luis 25, Madrid.

The income statement and the statement of financial position are presented in Euro, while the statement of cash flows, the statement of changes in equity and the amounts in these notes are presented in thousands of Euro.

As the Parent, Cairo Communication S.p.A. has also prepared the consolidated financial statements of the Cairo Communication Group at 31 December 2017.

Basis of preparation

Structure, form and content of the financial statements

The separate financial statements of Cairo Communication S.p.A. at 31 December 2017 have been prepared in accordance with IFRS issued by the International Accounting Standard Board ("IASB") and endorsed by the European Union, as well as with the provisions arising from art. 9 of Legislative Decree no. 38/2005. The term IFRS is used to mean all the international accounting standards ("IAS"), and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC").

For completeness of information, the following annexes are supplied as an integral part of these Notes:

- Annex 1: List of investments in direct subsidiaries;
- Annexes 2 and 3: Summary figures of the draft financial statements of direct subsidiaries at 31 December 2017;
- Annexes 4 and 5: Summary figures of the most recently approved financial statements of direct subsidiaries.

The main accounting policies adopted are unchanged from those used for the previous year, and are shown below.

The separate financial statements are prepared on a going concern basis. The Company believes that even in the presence of a difficult economic and financial climate, significant uncertainties do not exist (as defined by paragraphs 25 and 26 of IAS 1) as to the Company's ability to continue as a going concern, also given both the profitability outlook of the Company and the Group and its financial position.

Financial statements schedules

The **income statement** is presented by nature, highlighting interim operating results and pre-tax results, and, in order to allow a better measure of ordinary operating management performance. Furthermore, cost and revenue components deriving from events or transactions which, by their nature or size, are considered non-recurring, are also separately identified in the financial statements and the notes. These transactions also fall under the definition of non-recurring events and transactions as per Consob Communication No. 6064293 of 28 July 2006.

The income statement effect of discontinued operations is shown in a single line of the income statement named "Profit/loss from discontinued operations", under IFRS 5.

The **statement of comprehensive income** also reflects the "*changes arising from transactions with non-owners*"- separately showing the relevant tax effects, that is:

- profit and loss that could be directly recognized in equity (for instance, actuarial losses from the measurement of defined benefit plans),
- the effects of the measurement of derivative instruments hedging future cash flows,
- the effects of the measurement of "available-for-sale financial assets",
- the effects arising from any change in accounting standards.

The statement of comprehensive income presents the items relating to the amounts of the components of other comprehensive income for the period by nature and grouped into those which, in accordance with the provisions of other IAS/IFRS:

- will not be subsequently reclassified to profit (loss) for the year;

- will be subsequently reclassified to profit (loss) for the year, when certain conditions are met.

The **statement of financial position** presents separately assets and liabilities divided in current and non-current, indicating, on two separate lines, “Assets intended for sale” and “Liabilities associated with discontinued operations”, in accordance with IFRS 5. Specifically, an asset or a liability is classified as current when it satisfies one of the following criteria:

- it is expected to be realized or settled or it is expected to be sold or utilized in the normal operating cycle of the company;
- it is held principally to be traded;
- it is expected to be realized or settled within 12 months of the reporting date.

Otherwise, the asset or liability is classified as non-current.

The **statement of cash flows** has been prepared applying the indirect method in which operating performance is adjusted to reflect transactions of a non-monetary nature, for whatever deferral or accrual of previous or future operating receipts or payments and for revenue or cost components connected to cash flows arising from investing or financing activities. Income and expense relating to medium or long-term financial operations and those relating to hedging instruments and dividends paid are included in financing activities.

The **statement of changes in equity** shows the changes in equity relating to:

- allocation of profit for the year;
- amounts relating to transactions with owners (purchase and sale of treasury shares);

and separately income and expense defined as “*changes arising from transactions with non-owners*”, also shown in the statement of comprehensive income.

For each significant item detailed in the above-mentioned schedules, reference is made to the following notes in which relevant information is provided, with details also on composition and variations on the previous year.

Furthermore, in order to comply with Consob Resolution No. 15519 of 27 July 2006 relating to financial statements schedules, specific additional statements of comprehensive income and of financial position have been prepared, showing material balances or related party transactions separately for each item.

Revenue and cost recognition

Revenue and cost and income and expense are recognized on an accruals basis, specifically:

- Revenue is recognized on the probability with which the company will enjoy the economic benefits and in the extent to which the amount can be reliably determined. Revenue is stated net of any adjustments.
- Advertising revenue is recognized at the moment the advertisement is broadcast or published or provision of services offered.
- Cost is recognized using the same criteria for revenue recognition and on an accruals basis.
- Interest income and expense are recognized on an accruals basis.
- Dividends are recognized only as from when the shareholders' right to the dividend payment has been established, and only when resulting from a profit distribution following the acquisition of the investment; in the case, however, of a profit distribution prior to the acquisition of their relevant shares, such dividends are treated as a reduction in the cost of the relevant investment.
- The charge-back of costs incurred on behalf of third parties are recognized as a reduction in the cost to which they relate.
- Financial income and expense are recognized in the income statement on a maturity basis, as a function of time, using the effective interest method.

Taxes

Taxes for the year correspond to the sum of current and deferred taxes.

Current taxes are based upon taxable income for the year. Taxable income differs from the results shown in the income statement as it excludes both positive and negative entries which would be taxable or deductible in other tax years and excludes components which are not taxable or deductible at any time.

Cairo Communication presented the tax consolidation scheme option pursuant to art. 117/129 of the TUIR (Consolidated Income Tax Act) starting from 2016, together with the subsidiaries Cairo Editore, Cairo Pubblicità, Diellesei in liquidation, Cairo Publishing, La7 and Cairo Network.

Cairo Communication S.p.A. acts as the tax parent and determines a single taxable base for the group of companies that participates in the national tax consolidation scheme, which thereby benefits from the ability of offsetting taxable profits against taxable losses in one tax return.

Each company that participates in the national tax consolidation scheme transfers its taxable profit or loss to the tax parent; for any such taxable profit reported by a subsidiary, Cairo Communication S.p.A. recognizes receivables equal to the IRES payable. Conversely, for any such taxable loss reported by a subsidiary, Cairo Communication S.p.A. recognizes a payable equal to IRES due on the loss that has been contractually transferred at Group level.

Deferred tax liabilities are generally recognized for all taxable temporary differences, while deferred tax assets are recognized to the extent of the probability that there will be future taxable profits which will allow for the utilization of the deductible temporary differences. Deferred taxes are calculated on the basis of the tax rates that are expected will be in force at the moment of realization of the asset or settlement of the liability, based on tax legislation in force at the reporting date. Where relevant, the effects of any changes in tax rate or tax legislation after the reporting date are disclosed in the notes. Deferred tax assets and liabilities are shown at their net value when there is a legal right to offset current tax liabilities and assets and when the taxes relate to the same taxation authority.

Post-employment benefits

For Italian companies with at least 50 employees, post-employment benefits (TFR) take the form of a defined benefit plan, solely for the amounts accrued prior to 1 January 2007 (and not yet paid at the reporting date), whereas subsequent to such date, they are recognized as a defined contribution plan. For Italian companies with less than 50 employees, post-employment benefits are considered as a defined benefit plan. All defined benefit plans are discounted.

The Company has less than 50 employees. The discounting process, based on demographic and financial assumptions, is performed by independent actuaries.

In accordance with IAS 19 - *Employee Benefits*, the recognition of expense related to work performed and net financial expense are recognized in the income statement, while actuarial gains and losses arising from the re-measurement of liabilities and assets are recognized in the statement of comprehensive income.

Non-current assets

Intangible assets

Costs, including ancillary costs incurred for the acquisition of resources with no physical substance, are recognized under intangible assets when the cost is quantifiable and the asset is clearly identifiable and controlled by the Company, and where the use of the asset will generate probable future benefits.

These are valued at their acquisition or production cost, including ancillary expense – to the extent to which they are considered to have finite life – and they are amortized to reflect their remaining useful economic lives.

The amortization periods of intangible assets of various types are as follows:

Concessions, licenses, trademarks and similar rights	3 to 5 years
Software	3 to 5 years

The remaining useful life and the amortization criteria applied are reviewed on a regular basis and where change is deemed necessary, the amortization rate is restated in accordance with the "prospective" method.

Property, plant and equipment

Property, plant and equipment (PPE) are recognized when their cost can be reliably determined and when related future economic benefits can be enjoyed by the Company.

They are recognized at acquisition price or production cost, including directly associated expense and costs, plus the share of indirect costs which can be reasonably attributed to the asset.

These assets are systematically depreciated on a straight-line basis each year at rates consistent with the remaining useful life of the asset. Depreciation rates applied are as follows:

Property	3%
General equipment	20%
Motor vehicles	20%-25%
Plant and equipment	10%
Office equipment and furniture	10%-12%
Electronic equipment	20%

The above PPE depreciation rates are reduced by 50% during their first year of use, this percentage representing the weighted average of the entry to use of new assets, on an annual basis. Depreciation begins when the asset is ready for use.

The remaining useful life and the amortization criteria applied are reviewed on a regular basis and where change is deemed necessary, the amortization rate is restated in accordance with the "prospective" method.

The remaining useful life of assets is reviewed annually and if incremental maintenance or other work has been carried out which changes the remaining useful life of the investment, it is adjusted accordingly.

Incremental and maintenance costs producing a significant and tangible increase in the productive capacity or security of assets, or lengthening their remaining useful life, are capitalized and recognized as an increase in the carrying amount of the asset. Ordinary maintenance costs are taken directly to profit and loss.

Leasehold improvements are recognized as PPE, on the basis of the nature cost incurred. The depreciation period corresponds to the lower of the remaining useful life of the asset and the term of the contract.

Impairment of assets

IAS 36 requires impairment testing of property, plant and equipment, intangible assets and investments in subsidiaries and associates, in the presence of indications that an impairment loss may have occurred. In case of investments and of other intangible assets with indefinite useful life, or of assets not available for use, this assessment shall be carried out at least annually, and in particular the investments whose carrying amount exceeds the pertinent portion of Equity.

The recoverability of the recorded values is tested by comparing the carrying amount recorded in the financial statements with the higher amount between the net sale price, if an active market exists, or the value in use of the asset.

The value in use is defined by discounting the cash flows of the relating cash generating units. In particular, for investments in subsidiaries and associates, the discounted estimated cash flow and the value expected from its disposal at the end of its useful life, is adjusted by the net financial position recognized at the end of the year, relating to the financial statements of the investee. The equity value thus determined is compared to the carrying amount of the investment. Cash generating units were identified consistently with the organizational and business structure of the Company and of its investees. They consist of homogeneous aggregations that generate independent cash flows, deriving from the continued utilization of the assets allocated to them.

Investments

Subsidiaries and associates

Investments in subsidiaries and associates are measured at their acquisition or subscription cost and periodically subjected to impairment tests, to verify that no impairments have occurred. This test is carried out at least annually, i.e. whenever there is evidence of a likely impairment loss of the investments. The measurement method used is based on Discounted Cash Flow, applying the method described in the paragraph “Impairment of assets” or on fair value, calculated as the amount obtainable from the sale of the investment in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal. If an impairment loss needs to be recognized, it will be allocated in the income statement in the year when it is recognized.

Should the company's share of losses in an investment exceed the carrying amount of the investment, and the company is obliged to reflect those losses, the value of the investment is written off and the share of any such losses is shown as a provision in liabilities. Whenever an impairment loss is reduced or ceases to exist, the loss is reversed up to the original carrying amount through profit and loss.

<u>Current assets and liabilities</u>

Trade and other receivables

Trade and other receivables are recognized at their estimated realizable value (fair value) and are written down when there is an objective indication of their likely non-collectability, based also on historical experience and statistical data. Loans and trade receivables denominated in a foreign currency are translated at the exchange rate at year end, and the gains or losses deriving from the adjustment are recognized in the income statement.

Financial assets

They are initially recognized at fair value, which basically corresponds to consideration paid and direct expense associated with their acquisition. Financial assets acquired and sold are recognized at their trading date, when the Company intends to acquire/sell these assets.

At the subsequent reporting dates, the financial assets that the Company has the intention and the ability to hold to maturity (held-to-maturity investments) are recognized at amortized cost, net of any impairment losses, to reflect write-downs, if any.

Investments other than those held to maturity are classified as held for trading or available for sale and are measured at the end of each reporting period at their fair value. When financial assets are held for trading, gains and losses arising from fair value changes are recognized in profit and loss. In the case of available-for-sale financial assets, gains and losses arising from fair value changes are recognized in comprehensive income. When available-for-sale financial assets are sold, redeemed or transferred, cumulative gains or losses previously recognized in comprehensive income must be reclassified from equity to profit/ (loss) for the year. This reserve is also carried to the income statement if alignment to fair value derives from a subsequent impairment of the asset.

Regarding measurement of available-for-sale assets, the directors have chosen as impairment indicators the reduction in fair value below cost of over 50%, or for a period exceeding 24 months.

Cash and cash equivalents

This item comprises cash, bank current accounts and deposits on demand, and other short-term highly liquid financial investments which are easily convertible to cash and not subject to the risk of significant value changes.

They are recognized at their nominal amount.

Borrowings, bank loans and overdrafts

Borrowings, interest-bearing bank loans and bank overdrafts are recognized based on the amount cashed net of transaction costs, and subsequently measured at amortized cost using the current interest rate method.

Trade payables

These are recognized at their fair value, which coincides with the consideration to be paid.

Provisions for risks and charges

Provisions for risks and charges are recognized when the Company has a legal or constructive obligation resulting from a past event and for which a probability exists for the fulfillment of that obligation. The provisions reflect the best estimate based on information currently available to the Directors of the costs required to fulfill the obligation at the reporting date, and are discounted when the effect is significant.

Treasury shares

Treasury shares are recognized as a reduction in equity. The effects of any subsequent transactions are also recognized directly in equity.

Dividends paid

Dividends payable are recorded as a movement in equity in the year they are approved by the Shareholders' Meeting or by the Board of Directors in the event of interim dividend.

Use of estimates

The preparation of the financial statements and the notes thereto, in application of the IFRS, requires that the Company carry out certain estimates and assumptions which affect the carrying amount of assets and liabilities and disclosures about assets and contingent liabilities at the reporting date. Estimates and assumptions used are based on experience and on other factors considered significant. Actual results could differ from these estimates. Estimates mainly relate to investment measurement, provisions for risks relating to receivables, depreciation, amortization, impairment of assets, taxation, provisions for risks and charges, and contingent liabilities.

Estimates and assumptions are reviewed regularly and the effects of each variation therein are recognized in profit and loss in the period in which the estimate was revised. The effects of such revisions are reflected in the periods on which they have effect, i.e. both in the current period, and in future periods, if relevant. In this context, the persisting uncertainty factors in the short and medium economic term, which make it hard to predict a return to normal market conditions, have led to the need to make assumptions regarding future performance which are influenced by significant uncertainty, and the possibility of achieving results different from those estimated cannot be excluded for the next year, which could therefore require adjustments to the carrying amount, even significant, although these are obviously neither currently quantifiable nor foreseeable.

The items most susceptible to these uncertainties are the investments, the allowance for impairment, deferred tax assets and the provisions for risk and charges.

A summary follows of all critical measurement processes used and key assumptions made by management regarding the future in the process of applying accounting policies and that could have a significant effect on the amounts recognized in the consolidated financial statements and for which there is a risk that significant adjustments to the carrying amount of assets and liabilities could arise in the next financial period.

Determination of the recoverable value of investments

The Company revises periodically, at least annually, the carrying amount of investments even in the absence of impairment indications, to verify that they are not recorded at a higher amount than their recoverable value. Particular significance is attached to the impairment test for the investment in RCS, whose carrying amount of Euro 304.9 million accounts for approximately 94% of the total carrying amount of the investments held.

The recoverable value of the investments defined by each impairment test is sensitive to changes in the assumptions used, e.g. the rate of growth of revenue, changes in the forecast EBITDA and, amount the valuation parameters, the discount rate (WACC) and the consistency of financial projections beyond the period of the plan (g equal to zero, in nominal terms). In turn, the WACC is sensitive to changes in its own components, including the risk free that summarizes country risk.

Allowance for impairment

The allowance for impairment reflects Management's estimate regarding the losses on portfolio of receivables from end customers. The allowance is estimated based on the losses expected by the Company, based upon past experience for similar receivable, current and past due dates, losses and receipts arising from the careful monitoring of receivables management and from projections on market and economic conditions.

Deferred tax assets

Deferred tax assets are recorded to the extent to which it is considered probable that future taxable income will be generated to allow the utilization of deductible temporary differences. The realizable value of deferred tax assets is periodically reviewed according to the future taxable income foreseen in the Company's most recent plans.

Provisions for risks and charges

The provisions for risks and charges relating to contingent liabilities of a legal or fiscal nature are made on the basis of estimates made by the Directors on the basis of valuations made by the Company’s legal and tax advisers on the probable charge that can be reasonably expected to fulfill the obligation.

Risk management

The main fiscal, legal and financial risks to which Cairo Communication S.p.A. is exposed, as well as the policies put in place by Management for their management, are explained in Note 27 and Note 29. Reference is made to the Directors’ Report regarding operational and business risks.

Accounting standards, amendments and interpretations effective as of 1 January 2017

Amendment to IAS 12 - *Recognition of deferred tax assets for unrealized losses*

On 19 January 2016, the IASB published the amendment to IAS 12 **-** Recognition of deferred tax assets for unrealized losses, endorsed by the European Commission in November 2017. The aim is to provide clarification on the recognition of deferred tax assets on unrealized losses.

The changes clarify that unrealized losses arising from certain circumstances generate deductible temporary differences, regardless of the entity’s decision to recover the carrying amount of the asset by holding the asset until maturity or through its disposal.

The changes clarify that when estimating taxable income for future years, the entity may assume that the asset value will be recovered at a higher amount than its carrying amount, only where the recoverability of such higher amount is likely (this may occur, for example, when the entity plans to hold a fixed-rate debt instrument and collect the contractual cash flows). All these facts and circumstances should be taken into consideration when an entity makes such an assessment.

The adoption by Cairo Communication Group of these amendments, applicable retrospectively as of 1 January 2017, had no impact on the figures in the Annual Report.

Amendment to IAS 7 - Statement of Cash Flows: Disclosure Initiative

On 29 January 2016, the IASB published the amendment to IAS 7 - Statement of cash flows, endorsed by the European Commission in November 2017.

The amendment requires an entity to provide better disclosure on financial liabilities that allows users of financial statements to evaluate changes in liabilities arising from financing activities, including non-monetary items.

The adoption by the Company of these amendments, applicable as of 1 January 2017, had no impact on the disclosures in the Annual Report.

Accounting standards, amendments and interpretations endorsed by the EU and applicable from financial periods after 1 January 2017

IFRS 15 - *Revenue from contracts with customers*

In May 2014 the IASB issued IFRS 15 - *Revenue from contracts with customers***,** a new standard for revenue accounting, which supersedes the recognition criteria set out in IAS 18 *Revenue*, IAS 11 - *Construction contracts*, IFRIC 13 - *Customer Loyalty Programmes*, IFRIC 15 - *Agreements for the Construction of Real Estate*, IFRIC 18 - *Transfers of Assets from Customers*, and SIC 31 - *Revenue: Barter Transactions Involving Advertising Services*.

IFRS 15 applies as of 1 January 2018. On first-time adoption, IFRS 15 is applied retrospectively. Certain simplifications are, however, applicable ("practical expedients"), as well as a different approach ("cumulative effect approach") that avoids the restatement of annual periods presented in comparative information. In the latter case, the effects arising from the application of the new standard should be recognized in the initial equity of the first annual period for which IFRS 15 is applied.

While the Company has yet to complete the measurement of the impacts on the financial statements from the application of the new provisions of IFRS 15, based on the analyses carried out to date, its application should not produce effects on equity at 1 January 2018 or determine a different presentation of costs/ revenue as a result of the valuation of the principal/agent role.

IFRS 9 – *Financial instruments*

On 24 July 2014, the IASB published the final version of IFRS 9 *Financial instruments*, endorsed by the European Commission in November 2016, which supersedes IAS 39 - *Financial Instruments: Recognition and Measurement*. The document introduces new provisions for the classification and measurement of financial instruments, including a new model for expected losses in the calculation of impairment losses on financial assets, and new general provisions for hedge accounting. It also includes provisions for the recognition and derecognition of financial instruments in accordance with the current IAS 39. The new standard will be applicable from 1 January 2018; early adoption is allowed. As a general rule, under IFRS 9, the standard must be applied prospectively, although certain exceptions are allowed.

The Company will adopt IFRS 9 *Financial Instruments* as of 1 January 2018, making use of the exemption that allows an entity not to recalculate prior-years' comparative information regarding changes in classification and measurement, including impairment losses. Differences in the carrying amounts of financial assets and liabilities arising from the adoption of IFRS 9 will be recognized in retained earnings as of 1 January 2018. Additionally, on first-time adoption, an entity may elect whether to continue applying the hedge accounting provisions required by IAS 39 or to adopt those under IFRS 9. The Company intends to continue applying the provisions of IAS 39 during the transition phase.

An in-depth analysis was carried out in 2017 on the impacts from the application of IFRS 9. Based on the findings to date, the Company has estimated a potential negative effect of approximately Euro 0.4 million on "retained earnings" in equity at 1 January 2018 from first-time adoption of the standard. Mention should be made that the Company has yet to complete the analysis and measurement of these effects, which may, therefore, undergo changes until the presentation of the consolidated financial statements at 31 December 2018.

The above adjustment refers to the booking of further, potential impairment losses on financial assets, deriving from the application of the expected credit loss model introduced by IFRS 9, superseding the incurred credit loss model required by IAS 39.

Amendment to IFRS 4: *Applying IFRS 9 Financial instruments with IFRS 4 Insurance Contracts*

In September 2016, the IASB published the document *"Applying IFRS 9 Financial instruments with IFRS 4 Insurance Contracts"*, endorsed by the European Commission in November 2017 and applicable as of 1 January 2018.

The standard does not apply to Cairo Communication.

IFRS 16 – *Leases*

In January 2016, the IASB published the standard IFRS 16 *Leases*, endorsed by the European Commission in October 2017, which introduces a single lessee accounting model, with no distinction between operating and finance lease. The standard supersedes IAS 17.

All contracts falling under the definition of lease, except for contracts regarding low-value assets and leases with a term of 12 months or less, are recognized in the balance sheet as a right of use asset, offset against a corresponding financial payable. The standard, instead, introduces no material changes for the lessor. The standard introduces a criterion based on the use of an asset to distinguish leases from service contracts, identifying the following distinguishing factors:

- identification of the asset (meaning without the lessor's right to replace the asset);
- the right to obtain substantially all economic benefits deriving from use of the asset;
- the right to determine how and for what purpose the asset is used.

The standard is applicable as of 1 January 2019, but early adoption is allowed only for those companies that have applied IFRS 15 *Revenue from Contracts with Customers* in advance.

The Company is currently conducting the necessary analyses to define and assess the potential impact of the application of IFRS 16 on the separate financial statements.

Accounting standards, amendments and interpretations yet to be endorsed by the EU and applicable from financial periods after 1 January 2017

IFRS 14 *Regulatory Deferral Accounts*

IFRS 14, issued by the IASB in January 2014, allows an entity, whose activities are subject to rate regulation, to continue applying, at the time of first adoption of the IFRS, the previous accounting standards adopted for the amounts relating to rate regulation. IFRS 14 came into force on 1 January 2016, but the European Commission has suspended the endorsement process, pending the new standard on "rate-regulated activities".

The standard does not apply to Cairo Communication.

Amendment to IFRS 10: *Consolidated financial statements* and IAS 28 *Investments in associates and joint ventures*

The amendments address the inconsistency between IFRS 10 and IAS 28 over the loss of control of a subsidiary that is sold or transferred to an associate or a joint venture.

The amendments require that for a sale or contribution of an asset or a subsidiary to a joint venture or associate, the measure of the gain or loss to be recognized in the financial statements of the seller or contributor depends on whether the asset or subsidiary sold or contributed constitute a business under IFRS 3. If the assets or the subsidiary sold represent a business, the entity shall recognize the gain or loss on the entire investment held; otherwise, the portion of the gain or loss related to the investment still held by the entity shall be eliminated.

With a further adjustment in December 2015, the IASB cancelled the previous date of first-time application set for 1 January 2016, deciding to determine it at a later date.

Amendment to IFRS 2: *Classification and Measurement of Share-based Payment Transactions*

In June 2016, the IASB published the amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions, which aim to clarify the accounting of certain types of share-based payment transactions.

The amendments apply as of 1 January 2018. Early adoption is allowed.

Improvements to IFRS: *2014-2016 Cycle*

On 8 December 2016, the IASB published the document *"Improvements to IFRS: 2014-2016 Cycle"*, the main amendments regard:

- IFRS 1: *First-time Adoption of International Financial Reporting Standards* - The amendments delete a number of exemptions provided by IFRS 1, as they have not served their intended purpose. The amendments apply to financial periods beginning on 1 January 2018.

- IFRS 12: *Disclosure of Interests in Other Entities* - The amendment clarifies the scope of application of IFRS 12, specifying that the information required by the standard also applies to investments classified as held for sale, held for distribution to shareholders or as discontinued operations in accordance with IFRS 5. The purpose of the amendment is to provide consistency between the disclosure required by IFRS 5 and IFRS 12. The amendments apply to financial periods beginning on 1 January 2017.

- IAS 28: *Investments in Associates and Joint Ventures* - The amendment clarifies that the election to measure at fair value through profit or loss (rather than at equity) an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The amendments apply to financial periods beginning on 1 January 2018.

IFRIC Interpretation 22: *Foreign Currency Transactions and Advance Consideration*

In December 2016, the IASB published the document "*IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration*" to provide indications on how an entity shall determine the date of a transaction, and consequently the exchange rate to be used when foreign currency transactions take place, in which payment is made or received in advance.

The amendments apply to financial periods beginning on 1 January 2018.

Amendment to IAS 40 Investment Property: *Transfer of Investment Property*

In December 2016, the IASB published *"Amendment to IAS 40 Investment Property: Transfers of Investment Property"*, which clarifies the provisions relating to changes in the use of an asset that lead to qualifying an asset that does not constitute an investment property as such or vice versa. The amendments apply to financial periods beginning on 1 January 2018, but early adoption is allowed only if the amounts can be estimated.

IFRS 17: *Insurance Contracts*

In May 2017, the IASB published IFRS 17 - Insurance Contracts, which supersedes IFRS 4, issued in 2004. IFRS 17 applies to all types of insurance contracts, regardless of the type of entity that issues them, as well as to certain guarantees and financial instruments with discretionary participation features.

The standard is applicable to financial periods beginning on 1 January 2021, but early adoption is allowed.

IFRIC 23: *Uncertainty over Income Tax Treatments*

In June 2017, the IASB published the interpretation IFRIC 23 - *Uncertainty over Income Tax Treatments*, which deals with the uncertainties over income tax treatments, envisaging that uncertainties in the determination of tax liabilities or assets be reflected in the financial statements only when the entity is likely to pay or recover the amount in question. The new interpretation applies from 1 January 2019, but early adoption is allowed.

Amendment to IFRS 9 – Financial instruments: *Prepayment Features with Negative Compensation*

In October 2017, the IASB published the amendments to IFRS 9 *Prepayment Features with Negative Compensation*, to allow measurement at amortized cost or at *fair value through other comprehensive income* (OCI) of financial assets with prepayment features through "*negative compensation*".

The amendments apply to financial periods beginning on 1 January 2019.

Amendment to IAS 28 Investments in associates: *Long-term Interests in Associates and Joint Ventures*

The amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*, published by the IASB in October 2017, aim to clarify that IFRS 9 also applies to long-term interests in an associate or joint venture essentially forming part of the net investment in the associate or joint venture.

The IASB also published an example that shows how the provisions of IFRS 9 and IAS 28 apply to long-term interests in an associate or joint venture.

The amendments apply to financial periods beginning on 1 January 2019.

Improvements to IFRS: *2015-2017 Cycle*

In December 2017, the IASB published the document *"Improvements to IFRS: 2015-2017 Cycle"*, the main amendments regard:

- IFRS 3 - *Business Combination and IFRS 11 – Joint Arrangements* - The amendments to IFRS 3 clarify that when an entity obtains control of a joint operation, it must recalculate the fair value of the interest previously held in this joint operation. The amendments to IFRS 11 clarify that when an entity obtains joint control of a joint operation, the entity does not recalculate the fair value of the interest previously held in such joint operation.

- IAS 12 - *Income tax consequences of payments on financial instruments classified as equity* - The proposed amendments clarify how an entity must recognize any tax effects deriving from the distribution of dividends.

- IAS 23 – *Borrowing costs eligible for capitalization* - The amendments clarify that where funds borrowed specifically for the acquisition and/or construction of an asset remain in place even after the asset itself is ready for use or sale, such funds cease to be considered specific and are included in the entity's general funding in order to determine the capitalization rate of the funds borrowed.

The amendments apply to financial periods beginning on 1 January 2019. Early adoption is allowed.

NOTES TO THE INCOME STATEMENT

1. Revenue

Net operating revenue amounted to Euro 105,522 thousand (Euro 107,679 thousand at 31 December 2016). Its composition, versus the prior year, is shown below:

Net revenue (€ thousands)	**31/12/2017**	**31/12/2016**
Print media advertising space sales	32	81
Cairo Pubblicità TV sub-concession	101,083	103,149
Cairo Pubblicità print media sub-concession	677	744
Cairo Pubblicità Web sub-concession	128	103
Group services	3,502	3,502
Other revenue from associates	100	100
Total	**105,522**	**107,679**

Revenue is generated almost exclusively in Italy and an analysis by geographical area is pointless.

In 2017, Cairo Communication continued to operate on the TV advertising sales market (La7, La7d and theme channels Cartoon Network, Boomerang, and CNN) and on the Internet through its subsidiary Cairo Pubblicità, which operates on a sub-concession basis, invoicing advertising spaces directly to its clients and returning to the sub-grantor Cairo Communication a share of revenue generated by resources managed on a sub-concession basis.

In 2017, net operating revenue included the sub-concession fees billed to the subsidiary Cairo Pubblicità S.p.A. for:

- TV advertising sales, amounting to Euro 101,083 thousand,
- Internet advertising sales, amounting to Euro 128 thousand,
- print media advertising sales on "Prima Comunicazione", and "Uomini e comunicazione" and "Grande Libro dello Sport" of Editoriale Genesis S.r.l., amounting to Euro 677 thousand.

Apart from advertising services, Cairo Communication also provides services in administration, auditing, financial analysis, debt management and collection and marketing to other Group companies, and the use of serviced spaces. Such services are subject to contracts which are revised annually. Sales to Group companies deriving from these activities during the year were as follows:

Group services (€ thousands)	**31/12/2017**	**31/12/2016**
Cairo Pubblicità S.p.A.	3,000	3,000
Il Trovatore S.r.l.	22	22
Cairo Editore S.p.A.	480	480
Total	**3,502**	**3,502**

Other revenue from associates (Euro 100 thousand) relates to administrative services provided to Torino FC S.p.A., a related party in that it is ultimately controlled by U.T. Communications S.p.A.

2. Other revenue and income

Other revenue and income amounted to Euro 1,154 thousand (Euro 274 thousand at 31 December 2016). The item refers mainly to charge-backs of Euro 670 thousand to other Group companies, to contingent assets of Euro 375 thousand, and the difference to other items of revenue other than operating revenue.

3. Services, use of third-party assets and other operating costs

Cost of services amounted to Euro 102,690 thousand (Euro 104,675 thousand at 31 December 2016). The item is broken down as follows:

Services (€ thousands)	31/12/2017	31/12/2016
Publishers' fees	702	777
TV publishing fees	97,950	98,674
Web publishing fees	120	82
Consultancies and collaborations	632	302
Cairo Communication Board of Directors' fees	1,014	1,283
Cairo Communication Board of Statutory Auditors' fees	104	73
Non-recurring expense (OPAS)	-	1,878
Other administration and general expenses	2,168	1,606
Total services	**102,690**	**104,675**

In 2017, "TV publishing fees" included Euro 95,571 thousand related to publishers' fees to La7 for advertising sales on La7 and La7d.

"Use of third-party assets" amounted to Euro 749 thousand (Euro 705 thousand at 31 December 2016) and refers mainly to lease payments for property (Euro 358 thousand of which from RCS MediaGroup for the offices in Milan and Rome) and office equipment.

Other operating costs amounted to Euro 147 thousand (Euro 107 thousand for the year ended 31 December 2016) and refer to prior-year expense of Euro 35 thousand and other expense of Euro 112 thousand.

In 2016, the item included non-recurring expense of Euro 1,878 thousand incurred as part of the Offer for the acquisition of RCS.

4. Personnel expense

This item can be analyzed as follows:

Personnel expense (€ thousands)	31/12/2017	31/12/2016
Wages and salaries	2,252	2,171
Social security charges	810	809
Post-employment benefits	94	84
Total	**3,156**	**3,064**

5. Amortization, depreciation, provisions and impairment losses

These can be analyzed as follows:

Amortization, depreciation, provisions and impairment losses (€ thousands)	31/12/2017	31/12/2016
Amortization of intangible assets	96	111
Depreciation of property, plant and equipment	111	132
Allowance for impairment	55	-
Total amortization, depreciation, provisions and impairment losses	**262**	**243**

6. Net financial income (expense)

Net financial expense amounted to Euro 477 thousand (Euro 229 thousand at 31 December 2016) and is broken down as follows:

Net financial income (expense) (€ thousands)	31/12/2017	31/12/2016
Interest income on bank accounts	1	23
Total financial income	**1**	**23**
Interest and other financial expense	(478)	(252)
Total financial expense	**(478)**	**(252)**
Net financial income (expense)	**(477)**	**(229)**

7. Income/ (loss) on investments

This item, amounting to Euro 8,283 thousand (Euro 8,062 thousand in 2016) includes:

- dividends in the year from the subsidiary Cairo Editore, amounting to Euro 8,489 thousand (Euro 8,222 thousand in 2016);
- impairment of the investment held in Cairo Publishing, amounting to a negative Euro 207 thousand (a negative Euro 160 thousand in 2016).

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8. Taxes

Income tax for the year amounted to a negative Euro 171 thousand (a positive Euro 63 thousand at 31 December 2016). In accordance with the relevant accounting standards, the deferred tax assets, relating mainly to the accrual of provisions whose fiscal deductibility is deferred, were recognized.

Tax (€ thousands)	**31/12/2017**	**31/12/2016**
Current tax		
IRES	(82)	(300)
IRAP	47	-
Deferred tax income and expenses	206	237
Deferred tax liabilities	-	-
Total income tax	**171**	**(63)**

The reconciliation of the effective and theoretical tax charge can be analyzed as follows:

	31/12/2017	**31/12/2016**
Pre-tax profit	**7,477**	**6,992**
Theoretical income tax charge (24%)	1,794	1,923
Tax effects of dividends received	(2,218)	(2,148)
Tax effects of other permanent differences	548	162
IRAP	47	-
Current and deferred income tax	**171**	**(63)**

For a clearer understanding of the reconciliation of effective and theoretical tax charge, IRAP has not been taken into account as this is not based on pre-tax profit, and this would generate a distorting effect between one year and the other.

9. Loss from discontinued operations

The item includes allocations to the provision for risks on investments following loss in the year incurred by the subsidiary Diellesei S.r.l. in liquidation.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

10. Property, plant and equipment

At 31 December 2017, this item amounted to Euro 333 thousand, decreasing by Euro 102 thousand versus 31 December 2016. Movements can be broken down as follows:

Description	Historical cost	Revaluation	Accumulated depreciation	Carrying amount at 31/12/2016	Net change	Carrying amount at 31/12/2017
Motor vehicles	627	-	(487)	140	(31)	109
Furniture and fittings	391	-	(257)	134	(6)	128
Communication equipment	78	-	(77)	1	1	2
Electronic office equipment	1,388	-	(1,248)	140	(60)	80
General equipment	127	-	(126)	1	-	1
Mobile phones	51	-	(34)	17	(4)	13
Leasehold improvements	278	-	(276)	2	(2)	-
Carrying amounts at 31/12/2017	**2,940**	-	**(2,505)**	**435**	**(102)**	**333**

The net change in the year is broken down as follows:

Description	Increases (decreases)	Change in accumulated depreciation for disposals	Depreciation	Net change
Motor vehicles	(156)	156	(31)	(31)
Furniture and fittings	-	-	(6)	(6)
Communication equipment	2	-	(1)	1
Electronic office equipment	6	-	(66)	(60)
General equipment	-	-	-	-
Mobile phones	1	-	(5)	(4)
Leasehold improvements	-	-	(2)	(2)
Carrying amounts at 31/12/2017	**(147)**	**156**	**(111)**	**(102)**

Property, plant and equipment have not been subject to revaluation.

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11. Intangible assets

Intangible assets amounted to Euro 211 thousand at 31 December 2017, decreasing by Euro 42 thousand versus 31 December 2016. Their movements in the year are shown below:

Description	Historical cost	Accumulated depreciation	Carrying amount at 31/12/2016	Net change	Carrying amount at 31/12/2017
Software, licenses and trademarks	2,918	(2,712)	206	(64)	142
Total concessions, licenses and tradema	**2,918**	**(2,712)**	**206**	**(64)**	**142**
Website design costs	169	(169)	-	-	-
Assets under development	47	-	47	22	**69**
Total other	**216**	**(169)**	**47**	**22**	**69**
Total intangible assets	**3,134**	**(2,881)**	**253**	**(42)**	**211**

The net change in the year is broken down as follows:

Description	Increases	Change in accumulated depreciation for disposals	Depreciation	Net change
Software, licenses and trademarks	36	(4)	(96)	(64)
Total concessions, licenses and trader	**36**	**(4)**	**(96)**	**(64)**
Website design costs	-	-	-	-
Assets under development	22	-	-	22
Total other	**22**	**-**	**-**	**22**
Total intangible assets	**58**	**(4)**	**(96)**	**(42)**

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12. Investments

- Investments in subsidiaries

At 31 December 2017, investments amounted to Euro 328,926 thousand (Euro 328,133 thousand at 31 December 2016):

Description (€ thousands)	**Carrying amount at 31/12/2016**	**Impairment losses**	**Increases (decreases)**	**Impairment losses**	**Carrying amount at 31/12/2017**
RCS MediaGroup S.p.A.	304,916	-	-	-	**304,916**
Diellesei S.r.l. in liquidation	-	-	-	-	-
Cairo Network S.r.l.	5,520	-	-	-	**5,520**
La7 S.p.A.	4,039	-	-	-	**4,039**
Il Trovatore S.r.l.	357	-	-	-	**357**
Cairo Editore S.p.A.	6,273	-	-	-	**6,273**
Cairo Publishing S.r.l.	1,688	-	-	(207)	**1,481**
Cairo Pubblicità S.p.A.	5,340	-	1,000	-	**6,340**
Total investments	**328,133**	-	**1,000**	**(207)**	**328,926**

In 2017:

- Cairo Communication S.p.A. paid Euro 1 million to partly cover losses accumulated by Cairo Pubblicità S.p.A. at 31 December 2016;
- the liquidation of Diellesei continued. The net deficit of the company is covered by the provision for investment risks at 31 December 2017;
- a write-down of the carrying value of the investment in Cairo Publishing was recognized for a total of Euro 207 thousand, equal to the loss for the year of the subsidiary.

Annex 2 shows the information required by paragraph V of art. 2427 of the Italian Civil Code. Information at 31 December 2017 is drawn from the draft financial statements approved by the Board of Directors of each direct subsidiary.

For more detailed information, a comparison between carrying amount and the amount derived from the application of the equity method is provided for each investment in the following table.

Description (€ millions)	**Equity 31/12/2017 (*)**	**Ownership**	**Equity method (*) a)**	**Carrying amount (b)**	**Difference (a-b)**
RCS MediaGroup S.p.A.	170.2	59.69%	370.2	304.9	**65.3**
Diellesei S.r.l. in liquidation	(0.1)	60%	(0.1)	-	**(0.1)**
Cairo Network S.r.l.	4.1	100%	4.1	5.5	**(1.4)**
La7 S.p.A.	88.8	100%	76.5	4.0	**72.5**
Il Trovatore S.r.l.	0.5	80%	0.6	0.4	**0.2**
Cairo Editore S.p.A.	9.2	99.95%	24.0	6.3	**17.7**
Cairo Publishing S.r.l.	(0.1)	100%	(0.1)	1.5	**(1.6)**
Cairo Pubblicità S.p.A.	2.3	100%	4.6	6.3	**(1.7)**

(*) Amounts determined under IAS/IFRS

Particular significance is attached to the impairment test relating to the investment in RCS MediaGroup S.p.A..

The purchase cost of the investment had been Euro 304.9 million in 2016, relating to no. 311.5 million RCS shares, corresponding to 59.69% of RCS's share capital.

Cairo Communication determined, for impairment purposes, the recoverable value (defined in accordance with IAS 36 as the higher of the value in use and the fair value less costs to sell) of the "RCS investment" cash generating unit at the reference date of 31 December 2017.

Specifically, the recoverable value of the "RCS investment" cash generating unit was calculated, with support by an independent expert, in terms of the value in use based on the 2018 budget approved by the Board of Directors of RCS. Cash flows as inferred from the 2018 budget, in compliance with the provisions of IAS 36, were projected for valuation purposes to be constant in nominal terms (growth rate g = 0). These flows were, therefore, discounted on the basis of a rate defined as the weighted average cost of capital (WACC) (equal to 7.83%). The 2018 budget was also matched against and found to be consistent with the RCS 2018-2020 plan. No evidence of impairment arose from the analysis performed. The value obtained underwent a sensitivity analysis, by varying the discount rate (WACC) and the growth rate of the final value (g), with discrete changes of 50 basis points, and reducing the expected EBITDA values in the year and included in the final value of -15%. None of the scenarios envisaged indicate impairment losses for the CGU/RCS Investment at 31 December 2017.

The carrying amount of the investments in Cairo Publishing S.r.l., Cairo Pubblicità S.p.A. and Cairo Network S.r.l. is higher than the amount obtained using the equity method, respectively by Euro 1.6 million, Euro 1.7 million and Euro 1.4 million. The carrying amounts of the investments have, therefore, also undergone impairment tests to measure their recoverable value in terms of value in use, based on the estimated cash flows from the results of the investees as inferred from the most recent budgets and business plans (three-year), forecast for valuation purposes to be constant in nominal terms (growth rate g = 0) and discounted on the basis of a 7.62% WACC. No evidence of impairment arose from the analysis performed.

The Company prepares Group consolidated financial statements which, taking account of the investments held, are an essential document to ensure complete understanding of the activities of the Group, the Parent and its investments.

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13. Non-current financial assets

At 31 December 2017, non-current financial assets amounted to Euro 16,813 thousand (Euro 12,763 thousand at 31 December 2016), Euro 16,800 thousand of which relating to interest-free loans granted to the subsidiary Cairo Network S.r.l..

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14. Deferred tax assets

At 31 December 2017, deferred tax assets amounted to Euro 3,035 thousand (Euro 3,442 thousand at 31 December 2016). These assets can be analyzed as follows:

	31/12/2017		31/12/2016	
Deferred tax assets (€ thousands)	**Amount of temporary differences**	**Tax effect**	**Amount of temporary differences**	**Tax effect**
Taxed allowance for impairment	180	44	597	143
Taxable loss from group tax consolida	11,895	2,855	7,434	1,784
OPAS costs	-	-	4,852	1,345
POST-EMPLOYMENT BENEFITS IA	313	75	251	60
Other temporary differences	245	61	446	110
Total deferred tax assets	**12,633**	**3,035**	**13,580**	**3,442**

"Deferred tax assets" relate to the recognition in the financial statements at 31 December 2017 of deferred tax assets on the temporary differences between the carrying amount of recognized assets and liabilities and their tax values and on the tax benefits deriving from usable tax losses.

Deferred tax assets are recognized to the extent they are considered recoverable depending on the presence of future taxable income in which temporary differences will be reversed. Management periodically reviews the estimates underlying the recoverability of these amounts.

15. Trade receivables

Trade receivables amounted to Euro 669 thousand, increasing by Euro 573 thousand versus 31 December 2016. These are broken down as follows:

Trade receivables	**31/12/2017**	**31/12/2016**	**Change**
Trade receivables	823	611	212
Allowance for impairment	(154)	(515)	361
Total trade receivables	**669**	**96**	**573**

Since 2009, Cairo Communication has operated on the advertising sales market on a sub-concession basis with the subsidiary Cairo Pubblicità, which invoices directly to its customers and returns a share of the revenue to its parent. Current receivables arising from this activity accrue from the subsidiary.

The ageing of trade receivables by due date is as follows:

31 December 2017	Current	Past due 30-60 days	Past due 61-90 days	Past due 91-180 days	Past due over 180 days	Total
Trade receivables	498	-	-	1	324	823
Allowance for impairment	-	-	-	-	(154)	(154)
Due from customers	**498**	**-**	**-**	**1**	**170**	**669**

31 December 2016	Current	Past due 30-60 days	Past due 61-90 days	Past due 91-180 days	Past due over 180 days	Total
Trade receivables	81	-	-	-	530	611
Allowance for impairment	-	-	-	-	(515)	(515)
Due from customers	**81**	**-**	**-**	**-**	**15**	**96**

Trade receivables are shown net of allowance for impairment that has been determined taking account specific collection risks and takes into account the allocation to the Company's media clients of a percentage of losses on receivables, equal to the percentage of sales revenue allocated, pursuant to advertising space sales contracts signed between the two parties. Specifically, receivables due more than 180 days are those which arose when the Company used to operate directly as an advertising agency. As explained, since 2009, advertising sales have been managed under a sub-concession agreement with the subsidiary Cairo Pubblicità.

16. Receivables from subsidiaries

The item amounted to Euro 48,395 thousand, increasing by Euro 1,123 thousand versus 31 December 2016. It is broken down as follows:

Receivables from subsidiaries (€ thousands)	31/12/2017	31/12/2016	Change
La7 S.p.A.	116	1,111	(995)
Cairo Editore S.p.A.	3,863	777	3,086
Il Trovatore S.r.l.	289	262	27
Cairo Publishing S.r.l.	51	51	-
Cairo Pubblicità S.p.A.	42,440	45,052	(2,612)
Cairo Network S.r.l.	1,207	19	1,188
Digicast S.r.l.	56	-	56
RCS MediaGroup S.p.A.	373	-	373
Total receivables from subsidiaries	**48,395**	**47,272**	**1,123**

Receivables from Cairo Pubblicità S.p.A. (Euro 42,440 thousand) refer, for Euro 42,184 thousand, to the sub-concession contracts for TV and web advertising sales, the provision of administrative services and the use of serviced spaces. The item also includes receivables arising from Group VAT and the tax consolidation scheme.

Receivables from Cairo Editore S.p.A. (Euro 3,806 thousand) refer to centralized services provided by the Parent (Euro 1,264 thousand) and to the receivable from participation in the tax consolidation scheme (Euro 2,542 thousand).

Receivables from Il Trovatore S.r.l. (Euro 289 thousand) refer mainly to centralized services provided by the Parent, while the receivable from Cairo Network S.r.l. (Euro 1,207 thousand) refers entirely to the receivable from Group VAT.

Administrative services and use of serviced spaces to subsidiaries are provided by Cairo Communication through annual contracts at market value, renewable on a yearly basis.

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17. Other receivables and other current assets

These amounted to Euro 1,946 thousand, increasing by Euro 618 thousand versus 31 December 2016, and can be analyzed as follows:

Sundry receivables and other current assets (€ thousands)	**31/12/2017**	**31/12/2016**	**Change**
Prepaid IRAP	71	119	(48)
Current IRES	143	115	28
Current VAT	985	-	985
Receivables from others	100	518	(418)
Prepayments and accrued income	647	576	71
Total sundry receivables and other current assets	**1,946**	**1,328**	**618**

18. Cash and cash equivalents

The item amounted to Euro 6,557 thousand, increasing by Euro 2,126 thousand versus the prior year, and is broken down as follows:

Cash and cash equivalents (€ thousands)	**31/12/2017**	**31/12/2016**	**Change**
Bank and post office deposits	6,551	4,424	2,127
Cash	6	7	(1)
Total	**6,557**	**4,431**	**2,126**

Cash and cash equivalents continued to be managed prudently.

The **net financial position** of Cairo Communication at 31 December 2017 can be analyzed as follows:

(€ thousands)	31/12/2017	31/12/2016	Change
Cash and cash equivalents	6,557	4,431	2,126
Non-current financial payables	(78,200)	(78,200)	-
Total	**(71,643)**	**(73,769)**	**2,126**

Non-current financial payables refer to a loan agreement with Intesa Sanpaolo for a revolving facility totaling Euro 140 million (Euro 78.2 million of which drawn down at 31 December 2017) to fund both the cash component of the Offer for the acquisition of RCS and for other general corporate purposes. The loan has a duration of 60 months from the date of first use, with a margin of 48 basis points over the Euribor (for a duration corresponding to the relevant interest period), and does not require any collateral or financial covenants, or limits to the distribution of dividends by Cairo Communication.

The loan agreement provides for the customary representations, warranties and commitments typical of such transactions. No commitments are required from Cairo Communication in relation to RCS Group companies (including limits to the disposal of assets or the assumption of financial debt). Additionally, the loan agreement contains a cross-default clause (i.e., call in of the loan in the event of default under other loan agreements) regarding exclusively loan agreements relating to Cairo Communication and certain relevant subsidiaries (Cairo Editore, Cairo Pubblicità and La7), excluding, therefore, the loan agreements related to the RCS Group.

Early repayment is envisaged in the event of a change in control of Cairo Communication, and should the latter cease to directly or indirectly hold an interest of at least 35% in the share capital of RCS.

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19. Equity

At 31 December 2017, equity amounted to Euro 258,828 thousand, increasing by Euro 537 thousand versus 31 December 2016, as a result of the distribution of the 2016 dividend resolved by the Shareholders' Meeting of 8 May 2017 (Euro 6,721 thousand), and of the comprehensive profit for 2017 (Euro 7,289 thousand).

Share capital

The share capital at 31 December 2017 was Euro 6,990 thousand, subscribed and fully paid up, comprising no. 134,416,598 ordinary shares, with no indication of par value.

In accordance with the bylaws, the shares are registered, indivisible and freely transferable. The requirements of representation, legitimization, circulation of the company investment required for securities traded on regulated markets continue to apply.

Each share has the right to a proportion of the profit which has been approved for distribution and to a portion of equity on liquidation and also has the right to vote, without limits other than those as defined by the Law.

No securities carrying special controlling rights have been issued at present. The conditions for exercising increased voting rights have not occurred yet for any of the members of the Special List.

No financial instruments have been issued attributing the right to subscribe to newly-issued shares.

No share incentive plans are foreseen involving share capital increases, even on a freely allocated basis.

In 2017, as part of the share buy-back plans, no treasury shares were sold or purchased. At 31 December 2017, Cairo Communication held a total of no. 779 residual treasury shares, subject to art. 2357-ter of the Italian Civil Code.

The reconciliation between the number of shares outstanding at 31 December 2017 and those at 31 December 2016 is as follows:

	31/12/2016	Share capital increase	Purchase/disposal of treasury shares	31/12/2017
Ordinary shares issued	134,416,598	-	-	134,416,598
Treasury shares	(779)	-	-	(779)
Ordinary shares outstanding	**134,415,819**	**-**	**-**	**134,415,819**

Share premium reserve

At 31 December 2017, the share premium reserve amounted to Euro 242,802 thousand, unchanged versus the prior year.

Retained earnings

At 31 December 2017, the balance showed a positive Euro 324 thousand. The item includes the IAS first-time adoption reserve, with a negative balance of Euro 1,313 thousand.

Prior-years' profit (€ thousands)	31/12/2017	31/12/2016
Prior-years' profit	1,636	1,717
Prior-years' profit – "first-time adoption" reserve	(1,313)	(1,313)
Total	**323**	**404**

Other reserves

At 31 December 2017, the item amounted to Euro 1,409 thousand, increasing by Euro 352 thousand versus the prior year. It can be analyzed as follows:

Other reserves (€ thousands)	**31/12/2017**	**31/12/2016**
Legal reserve	1,167	815
Negative goodwill	225	225
Other reserves	17	17
Total	**1,409**	**1,057**

Treasury shares reserve

In 2017, as part of the share buy-back plans, no treasury shares were sold or purchased. At 31 December 2017, Cairo Communication held a total of no. 779 treasury shares, subject to art. 2357-ter of the Italian Civil Code.

At their meeting on 8 May 2017, after revoking a similar resolution adopted on 27 April 2016, the Shareholders approved the proposal to acquire and dispose of treasury shares in accordance with art. 2357 and subsequent articles of the Italian Civil Code, for the purpose of stabilizing the Company share price and sustaining liquidity, and, if deemed necessary by the Board of Directors, through an independent intermediary, of establishing a “shares stock” as provided in Consob regulation 16839/2009. The Board was authorized to acquire treasury shares up to the maximum number permitted by law, for a period of 18 months from the date of authorization, by use of available reserves, including the share premium reserve, as resulting from the last approved annual financial statements. Specifically, the Board of Directors will be authorized to acquire treasury shares on one or more occasions, acquiring shares directly on the market and through authorized intermediary – in accordance with the procedures provided by art. 144 bis, paragraph 1, letter b of the Issuer Regulations and relevant Instructions – and, in case such operations are carried out, according to accepted market practices, pursuant to the regulations introduced by Consob Resolution No. 16839/2009. Minimum price and maximum acquisition price per share are set at an amount equal to the average official purchase price of the share on Borsa Italiana S.p.A. for the 15 working days preceding the purchase, respectively reduced or increased by 20%. In case such operations are carried out according to accepted market practices under Consob Resolution 16839/2009, the purchase of treasury shares shall be subject to further limits, including price limits, provided therein. The Board was authorized to sell, on one or more occasions, any acquired treasury shares, setting the minimum sale price per share no lower than the minimum price calculated following the criteria adopted for their purchase. Should the treasury shares be sold according to accepted market practices under Consob Resolution 16839/2009, the sale of treasury shares shall be subject to further limits, including price limits, provided therein.

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The following table shows equity items and indicates if they can be used and distributed, and tax restrictions if any:

				Use over the previous three years	
Number/Description (€ thousands)	**Amount**	**Eligibility for use:**	**Available portion**	**To cover losses**	**Other (dividends)**
Share capital	6,990			-	-
Treasury shares	(2)			-	-
Share premium reserve (1)	242,802	ABC	242,571	-	21,218
Legal reserve	1,167	B		-	-
Other reserves	17	ABC	17	-	-
Negative goodwill	225	ABC	225	-	-
Prior-years' profit	324	ABC	324	-	36,755
Total	**251,523**		**243,137**	**-**	**57,973**

Key:
A - for increases in share capital
B - to cover losses
C - dividend
(1) In accordance with art. 2431 of the Italian Civil Code, the entire amount of this reserve may be distributed provided the legal reserve has reached the limit as defined by art. 2430 of the Code

Profit for the year

Profit for the year amounted to Euro 7,306 thousand (Euro 7,042 thousand at 31 December 2016).

20. Post-employment benefits

This item amounted to Euro 1,347 thousand, with a net difference of Euro 150 thousand versus the prior year. The movement is analyzed below:

	Balance at 31/12/2016	**Paid during the year**	**Financial expense**	**Allocation for the year**	**Actuarial adjustment**	**Balance at 31/12/2017**
Post-employment benefits	1,197	(3)	16	75	62	1,347
Total	**1,197**	**(3)**	**16**	**75**	**62**	**1,347**

The change in the composition of personnel during the year is summarized as follows:

	Headcount at the beginning of the year	Changes	Headcount at year-end	Average headcount
Senior managers	8	(1)	7	8
Managers	2	-	2	2
Employees	17	-	17	17
Total	**27**	**(1)**	**26**	**27**

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21. Provisions for risks and charges

Provisions for risks and charges amounted to Euro 177 thousand, unchanged versus the prior year.

	Balance at 31/12/2016	Utilizations	Released	Accrued	Balance at 31/12/2017
Risks on investments	142	-	-	-	142
Other risks	35	-	-	-	35
Total	**177**	**-**	**-**	**-**	**177**

The "provision for risks on investments" refers entirely to the investee Diellesei S.r.l. in liquidation, accrued as a result of the subsidiary's net deficit.

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22. Payables to suppliers

Payables to suppliers amounted to Euro 3,322 thousand, decreasing by Euro 3,584 thousand versus 31 December 2016. The change is due mainly to payment of the payables arising in 2016 from the acquisition of RCS MediaGroup.

23. Receivables from and payables to parent

Receivables from parents amounted to Euro 156 thousand, unchanged versus 31 December 2016, and refer mainly to receivables from U.T. Communications arising from the national tax consolidation scheme, following requests for the reimbursement of IRAP submitted in accordance with Decree Law 201/20011 for non-deduction of IRAP relating to personnel and similar expenses.

24. Payables to subsidiaries

Payables to subsidiaries amounted to Euro 62,909 thousand, increasing by Euro 12,455 thousand versus 31 December 2016, and are broken down as follows:

Payables to subsidiaries (€ thousands)	**31/12/2017**	**31/12/2016**	**Change**
La7 S.p.A.	60,653	49,718	10,935
Cairo Pubblicità S.p.A.	1,040	475	565
Cairo Publishing S.r.l.	21	20	1
Il Trovatore S.r.l.	66	98	(32)
Cairo Editore S.p.A.	-	4	(4)
Cairo Network S.r.l.	408	1	407
RCS MediaGroup S.p.A.	721	138	583
Total	**62,909**	**50,454**	**12,455**

Payables to La7 S.p.A. arise mainly from the publisher's share acknowledged to the subsidiary for advertising sales on La7 and La7d.

25. Tax liabilities

Tax liabilities amounted to Euro 237 thousand, decreasing by Euro 525 thousand versus 31 December 2016. They are broken down as follows:

Taxes payables (€ thousands)	**31/12/2017**	**31/12/2016**	**Change**
Withholding taxes on employees	162	171	(9)
Withholding taxes on contract workers	75	71	4
VAT payable	-	520	(520)
Total tax liabilities	**237**	**762**	**(525)**

26. Other current liabilities

Other current liabilities amounted to Euro 2,019 thousand, decreasing by Euro 299 thousand versus 31 December 2016. They are broken down as follows:

Other current liabilities (€ thousands)	31/12/2017	31/12/2016	Change
Social security charges payable	225	231	(6)
Other payables	1,710	1,906	(196)
Accrued expenses	84	181	(97)
Total	**2,019**	**2,318**	**(299)**

27. Commitments, risks and other information

Guarantees and commitments

Main guarantees given and/or received are as follows:

- Cairo Communication issued Unicredit S.p.A. a guarantee to secure the bank loan initially of Euro 25,000 thousand (Euro 10,000 thousand outstanding at 31 December 2017) granted in July 2014 to the subsidiary Cairo Network for the purchase of the rights to use television frequencies. The loan agreement has no financial covenants. Early repayment is, instead, provided for in the event of a change of control of Cairo Network;
- guarantees issued by bank and insurance institutes to customers, public bodies and lessors of property totaling Euro 6,326 thousand.

The long-term agreement concluded in 2013 by La7 and Telecom Italia Media Broadcasting S.r.l. (now Persidera) for the supply of transmission capacity provided for the issue by Cairo Communication of a parent company guarantee to cover the payment obligations undertaken by La7, for a maximum amount of Euro 6.6 million (including VAT). In the first half of 2016, La7 exercised the right to withdraw from the agreement effective from 1 January 2017. La7 then also noted the termination of the agreement owing to existing excess charges, effective from 1 September 2016, contested by Persidera. La7 and Cairo Communication therefore summoned Persidera to ascertain its rights. At the hearing held on 1 March, the judge reserved all decisions on the granting or less of the provisionally executory injunctive order put forward by Persidera. Under the provision to lift the reservation, the judge will also set the deadlines by which the parties may file their pleadings for the purposes of dealing with the dispute.

In 2007, as the result of a VAT audit, a number of points had been raised against Cairo Communication S.p.A. for 2002 and subsequent years (2003, 2004, 2005 and 2006) relating to the application if any of VAT on dealing rights recognized to media centres, which had subsequently been included in the final audit reports, which the Company has challenged. For the periods 2002, 2003, 2004, 2005 and 2006, the Provincial Tax Commission of Milan has, in different moments, upheld the Company’s appeals. The Regional Tax

Commission of Milan upheld the Agency’s appeal regarding 2002 (in April 2010), 2003, 2004 and 2005 (in April 2010) and 2006 (for which the tax claim amounted to Euro 63 thousand in addition to penalties of Euro 79 thousand and interest). Cairo Communication has appealed to the Court of Cassation against the judgment regarding 2002, for which the tax claim amounted to Euro 41 thousand in addition to penalties of Euro 51 thousand, and the judgment regarding the subsequent years 2003, 2004 and 2005, for which the tax claim totaled Euro 218 thousand, in addition to penalties of Euro 272 thousand and interest. Two rulings were filed on 9 July, by which the Court of Cassation upheld the claim, referring any re-calculation of the penalties to the trial court in accordance with the "favor rei" principle (for instance, moving from the 90% minimum statutory penalty in place of the 100% penalty included in the final audit reports). Cairo Communication has, therefore, filed an appeal to the Regional Tax Commission of Milan to recalculate penalties. A reduced settlement was adopted, instead, for 2006, in accordance with Law Decree no. 50 of 24 April 2017.

Regarding the commitments, risks and other information relating to Cairo Communication’s subsidiaries, reference should be made to the explanatory notes to the consolidated financial statements at 31 December 2017.

It is also noted that:

- the separate financial statements at 31 December 2017 do not include any receivables or payables with a residual term exceeding five years;
- the separate financial statements at 31 December 2017 do not include the capitalization of borrowing costs.

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28. Related party transactions

In 2017, transactions carried out by Cairo Communication with related parties and the effect on the financial statements are shown as follows:

Receivables and financial assets (€ Thousands)	**Trade receivables**	**Other receivables and current assets**	**Intra-group financial assets**	**Other current financial assets**
Parent UT Communications	59	96	-	-
Subsidiaries of Cairo Communication Group				
Cairo Pubblicità S.p.A.	42,183	257	-	-
Cairo Editore S.p.A.	1,264	2,599	-	-
Cairo Publishing S.r.l.	51	-	-	-
Il Trovatore S.r.l.	289	-	-	-
La7 S.p.A.	116	-	-	-
RCS MediaGroup S.p.A.	373	-	-	-
Digicast S.r.l.	56	-	-	-
Cairo Network S.r.l.	-	1,207	16,800	-
Affiliates of UT Communications Group				
Torino FC S.p.A.	30	-	-	-
Total	**44,421**	**4,160**	**16,800**	**-**

Payables and financial liabilities (€ Thousands)	**Trade payables**	**Other payables and current liabilities**	**Intra-group financial payables**	**Other financial liabilities**
Parent UT Communications	-	-	-	-
Subsidiaries of Cairo Communication Group				
Cairo Pubblicità S.p.A.	1,039	-	-	-
La7 S.p.A.	56,332	4,322	-	-
Cairo Publishing S.r.l.	-	21	-	-
Il Trovatore S.r.l.	66	-	-	-
Cairo Network S.r.l.	-	408	-	-
RCS MediaGroup S.p.A.	721	-	-	-
Affiliates of UT Communications Group				
Torino FC S.p.A.	17	-	-	-
Total	**58,175**	**4,751**	**-**	**-**

Income and expense (€ Thousands)	**Operating revenue**	**Operating costs**	**Financial income**	**Financial expense**	**(Expense)/ Income from investments**
Parent UT Communications	-	-	-	-	-
Subsidiaries of Cairo Communication Group					
Cairo Pubblicità S.p.A.	105,058	-	-	-	-
Cairo Editore S.p.A.	480	-	-	-	8,489
La7 S.p.A.	149	(95,589)	-	-	-
Cairo Publishing S.r.l.	-	-	-	(207)	-
Il Trovatore S.r.l.	22	(108)	-	-	-
RCS MediaGroup S.p.A.	305	(490)	-	-	-
Digicast S.r.l.	46	-	-	-	-
Affiliates of UT Communications Group					
Torino FC S.p.A.	100	-	-	-	-
Total	**106,160**	**(96,187)**	**-**	**(207)**	**8,489**

	Cairo Editore	**RCS MediaGroup**	**Cairo Pubblicità**	**Cairo Publishing**	**La7**	**Il Trovatore**	**Torino FC**
EXPENSE							
Internet services	-	-	-	-	-	(108)	-
Publishers' fees	-	-	-	-	(95,589)	-	-
Seconded personnel	-	(107)	-	-	-	-	-
Leases and ancillary expense	-	(358)	-	-	-	-	-
Mandatory notices	-	(25)	-	-	-	-	-
Impairment losses on equity investments	-	-	-	(207)	-	-	-
Total	**-**	**(490)**	**-**	**(207)**	**(95,589)**	**(108)**	**-**

	Cairo Editore	RCS MediaGroup	Cairo Pubblicità	Digicast	La7	Il Trovatore	Torino FC
INCOME							
Sub-concession payment	-	-	101,888	-	-	-	-
Administrative services and use of serviced space	480	-	3,000	-	-	22	100
Recharged costs	-	305	170	46	149	-	-
Dividends	8,489	-	-	-	-	-	-
Total	**8,969**	**305**	**105,058**	**46**	**149**	**22**	**100**

Cairo Communication supplies a range of services to some of its subsidiaries and associates, mainly relating to management accounting software, use of serviced spaces, administration, finance, treasury, management control, credit management and marketing activities, to allow the individual companies to benefit from economies of scale and more efficient management.

In 2017, Cairo Pubblicità S.p.A. worked for Cairo Communication:

- as sub-lessee of Cairo Communication for TV advertising sales (La7 and theme channels under concession Cartoon Network, Boomerang, and CNN) and Internet advertising sales,
- as sub-lessee for print media advertising sales only for the magazines of Editoriale Genesis.

Under these agreements, Cairo Pubblicità directly invoices customers and returns a percentage of proceeds to the sub-lessor.

In the year under review, there were no transactions with the parent (U.T. Communications) or with subsidiaries of the latter, except for the contract with Torino F.C. for the provision of administrative services such as bookkeeping; the agreement sets an annual fee of Euro 100 thousand.

Cairo Communication presented the tax consolidation scheme option pursuant to art. 117/129 of the TUIR (Consolidated Income Tax Act) starting from 2016, together with the subsidiaries Cairo Editore, Cairo Pubblicità, Diellesei in liquidation, Cairo Publishing, La7 and Cairo Network.

Fees paid to the directors in the year are analyzed in Note 30 “Board of Directors’ and Board of Statutory Auditors’ fees” and in the Remuneration Report, prepared pursuant to art. 123 ter of the TUF.

In 2017, Studio Magnocavallo e Associati, of which lawyer Antonio Magnocavallo, director of Cairo Communication, is a partner, earned fees for professional services provided to companies of the Cairo Communication Group for approximately Euro 200 thousand.

During the year, no transactions were concluded with members of the Board of Directors of the Company, general managers and/or key management personnel, members of the Board of Statutory Auditors, and the Financial Reporting Manager, further than fees paid and as already shown in this Note.

The procedures adopted by the Group for related party transactions, to ensure transparency and substantial and procedural fairness, made by the Company either directly or through its subsidiaries, are illustrated in the Directors’ Report in the section on the “Report on Corporate Governance”.

29. Risk management

Liquidity risk

Liquidity risk may arise from difficulties in obtaining loans to support operations in accordance with the proper timescales, and, if necessary, to repay loans falling due.

Mention should be made that in July 2016, as part of the transaction for the acquisition of control of RCS, Cairo Communication had concluded a revolving facility with Intesa Sanpaolo for a total amount of Euro 140 million, aimed at funding both payment of the cash component of the Offer and other general corporate purposes. The loan has a duration of 60 months from the date of first use, with a margin of 48 basis points over the Euribor (for a duration corresponding to the relevant interest period), and does not require any collateral or financial covenants, or limits to the distribution of dividends by Cairo Communication.

The following table summarizes the equity profile of the Cairo Communication Group's current assets and liabilities at 31 December 2017:

Description	**31/12/2017**	**31/12/2016**	**Change**
Trade receivables and other current assets	351.8	385.8	(34.0)
Inventory	18.2	20.3	(2.1)
Trade and other current payables	(510.2)	(546.1)	35.9
Net working capital	**(140.2)**	**(140.0)**	**(0.2)**
Liquid funds	128.1	124.8	3.3
Current financial assets	0.9	1.2	(0.3)
Current financial liabilities	(73.0)	(110.1)	37.1
Current net financial position	**56.0**	**15.9**	**40.1**
Difference between current assets and liabilities	**(84.2)**	**(124.1)**	**39.9**

At 31 December 2017, the difference between current assets and liabilities shows a negative balance of Euro 84.2 million, improving significantly versus the prior year (Euro 124.1 million at 31 December 2016). In this regard, it should be noted that, at 31 December 2017:

- only approximately Euro 78.2 million of the medium-long term revolving credit facility granted by Banca Intesa to Cairo Communication for a total amount of Euro 140 million had been drawn down at 31 December 2017;
- only Euro 50 million out of a total of Euro 100 million of the revolving line set out in the RCS loan agreement had been drawn down at 31 December 2017;

- the publishing companies have a negative net working capital (current assets net of current liabilities, not including financial assets or liabilities), since a portion of the trade receivables (those from sales in the publishing segment) are transformed into cash more quickly than average supplier payment terms;
- the Group attempts to ensure that an appropriate ability to generate cash is maintained, even under the current market conditions.

The following table summarizes the time profile of the Cairo Communication Group's financial assets and liabilities at 31 December 2017 based on the non-discounted collections and payments set out in the contracts (including principal and interest even if not accrued at the reporting date):

31 December 2017	On demand	< 6 months	6 m - 1 year	1-2 years	2-5 years	> 5 years	Total
Non-current financial receivables	-	-	-	0.7	1.5	1.5	3.7
Current financial receivables	0.3	0.1	0.5	-	-	-	0.9
Hedge derivatives	-	-	-	-	-	-	-
Cash and cash equivalents	128.1	-	-	-	-	-	128.1
Interest income	-	0.0	0.0	0.1	0.1	0.1	0.3
Total financial assets	**128.4**	**0.1**	**0.5**	**0.7**	**1.6**	**1.6**	**133.0**
Financial payables to third parties	16.8	34.3	16.6	30.9	99.8	188.4	386.7
Hedge derivatives	-	1.1	0.1	-	(0.1)	-	1.1
Financial payables to Group companies	4.3	-	-	-	-	-	4.3
Interest expense	-	2.6	3.9	6.2	16.5	-	29.2
Total financial liabilities	**21.1**	**38.0**	**20.6**	**37.1**	**116.2**	**188.4**	**421.3**

The amounts shown in this table, unlike those reported in total net financial debt, exclude the fair value of derivatives (Euro -1 million), and include the interest-bearing portion of non-current loan assets (Euro 3.7 million).

Interest rate risk

Interest rate risk consists of potential and higher financial expense stemming from an unfavorable and unexpected change in interest rates. At 31 December 2017, the Company holds exclusively floating rate financial instruments and, therefore, is exposed to said risk.

The floating rate financial instruments exposed to interest rate risk are those included in the net financial position, amounting to Euro -71.6 million at 31 December 2017. Regarding these values, a variation of +/-

1% in the reference interest rate curves would result in an increase (decrease) in financial expense of Euro 0.7 million on an annual basis.

Currency risk

Cairo Communication is not exposed to currency risk as revenue is generated entirely in Italy and the main costs are incurred in Euro.

Credit risk

Cairo Communication has limited exposure to credit risk given that its advertising sales activities are performed through sub-concession agreements with the subsidiary Cairo Pubblicità. Trade receivables are therefore due almost entirely from other Group companies.

30. Board of Directors' and Board of Statutory Auditors' fees

For the year ended 31 December 2017, the following information referring to the fees paid to Directors, Statutory Auditors, General Managers and key management personnel, also in subsidiaries, is analyzed in detail in the Remuneration Report, prepared pursuant to art. 123 ter of the TUF, and in summary form in the table below:

(€ millions)	**Services**	**Personnel expense**	**Other current liabilities**
Cairo Communication S.p.A.			
Board of Directors - fees	(0.3)	-	-
Board of Statutory Auditors - fees	(0.1)	-	0.1
Chief Executive Officers	(0.7)	(0.6)	0.2
Key management personnel	-	(0.4)	-
Total Cairo Communication S.p.A.	**(1.1)**	**(1.0)**	**0.3**
Subsidiaries			
Board of Directors - fees	-	-	-
Board of Statutory Auditors - fees	-	-	0.1
Chief Executive Officers	(3.2)	-	1.8
Key management personnel	(0.2)	(0.8)	-
Total subsidiaries	**(3.4)**	**(0.8)**	**1.9**
Total	**(4.5)**	**(1.8)**	**3.8**

It should be noted that:

- there are no agreements in place between the Parent and the directors for any indemnity in the event of resignation or unjust dismissal, or in the event their employment relationship ceases following a takeover bid;
- there are agreements in place between the Parent and Uberto Fornara, subject to non-competition commitments for 18 months following termination of his management relationship with the Parent, for payment during his relationship of a gross annual fee of Euro 100 thousand. In the event of termination of employment before payment, as remuneration for the non-competition agreement, as of May 2014, of the total sum of Euro 450 thousand, to be considered a minimum consideration of the agreement, the Company will pay the manager the difference between such minimum amount and the amount paid until then as remuneration for the agreement.

Moreover, there are no succession plans regarding executive directors.

At 31 December 2017, Key Management Personnel of the Cairo Communication Group were the following:

- Giuseppe Ferrauto (Director, General Manager and manager of Cairo Editore),
- Marco Ghigliani (CEO, General Manager and manager of La7)
- Mario Cargnelutti (Director and operations manager of Cairo Pubblicità and manager of Cairo Communication),
- Alberto Braggio (Director of Cairo Editore and head of planning, finance and control and manager of Cairo Communication).

Cairo Communication has no current stock option plans at this time.

31. Transactions deriving from atypical and/or unusual or non-recurring transactions

Pursuant to Consob Communication of 28 July 2006 no. DEM/6064296, it should be noted that in 2017 the Cairo Communication Group did not engage in any atypical and/or unusual transactions as defined by the above Communication.

32. Entity which prepares the consolidated financial statements of the largest body of entities, of which the entity forms part as a subsidiary

U.T. Communications S.p.A., with registered office in Via Montenapoleone 8, Milan, where a copy of the consolidated financial statements is also available

33. Entity which prepares the consolidated financial statements of the smallest body of entities, of which the entity forms part as a subsidiary

U.T. Communications S.p.A., with registered office in Via Montenapoleone 8, Milan, where a copy of the consolidated financial statements is also available

34. Events after the reporting period and business outlook

Events after the reporting period and the business outlook are commented on in the Directors' Report.

Shareholders,

We invite you to approve the separate financial statements as at and for the year ended 31 December 2017 and the accompanying reports, and we propose the distribution of a dividend of Euro 0.10 per share, gross of taxes.

Shareholders are invited:

- to approve the separate financial statements as at and for the year ended 31 December 2017, which show a profit for the year of Euro 7,306,051.06;
    1. allocating Euro 231,082.16 to the legal reserve,
    2. resolving on the proposal to distribute to shareholders a dividend of Euro 0.10 per share, gross of taxes, for each share entitled to receive profit distributions, with the exception of treasury shares held by the Company on the date prior to the record date pursuant to art. 83-*terdecies* of the TUF, distributing the remainder of the profit for the year, equal to Euro 7,074,968.90 and drawing on the share premium reserve for the difference of Euro 6,366,690.90.

If approved by the Shareholders, the dividend of Euro 0.10 per share will be made payable on 16 May 2018 (record date pursuant to art. 83-terdecies of the TUF: 15 May 2018), prior to detachment of coupon no. 12 on 14 May 2018.

For the Board of Directors

Chairman Urbano Cairo

Cairo Communication S.p.A.
Separate financial statements at 31 December 2017 – Annexes and Appendix

APPENDIX 1

List of investments in direct subsidiaries

Company name and registered office (€ millions)	Share Capital	Result latest year (*)	Equity	% held
Cairo Editore S.p.A - Milan				
At 31/12/16	1.0	8.5	10.6	99.95
At 31/12/17	**1.0**	**7.1**	**9.2**	**99.95**
Rcs MediaGroup S.p.A - Milan				
At 31/12/16	475.1	(9.2)	353.7	59.69
At 31/12/17	**475.1**	**53.7**	**410.2**	**59.69**
LA7 S.p.A - Rome				
At 31/12/16	1.0	(10.8)	94.1	100.00
At 31/12/17	**1.0**	**(5.3)**	**88.8**	**100.00**
Il Trovatore S.r.l. - Milan				
At 31/12/16	0.0	0.1	0.4	80.00
At 31/12/17	**0.0**	**0.1**	**0.5**	**80.00**
Cairo Pubblicità S.p.A. - Milan				
At 31/12/16	2.8	(1.1)	1.2	100.00
At 31/12/17	**2.8**	**0.1**	**2.3**	**100.00**
Diellesei S.r.l in liquidation - Milan				
At 31/12/16	0.0	-	-	60.00
At 31/12/17	0.0	**-**	**-**	**60.00**
Cairo Publishing S.r.l. - Milan				
At 31/12/16	0.0	(0.2)	0.2	100.00
At 31/12/17	**0.0**	**(0.2)**	**(0.1)**	**100.00**
Cairo Network S.r.l. - Milan				
At 31/12/16	5.5	(0.1)	5.4	100.00
At 31/12/17	**5.5**	**(1.3)**	**4.1**	**100.00**

(*) Figures at 31/12/2016 refer to the financial statements approved by the respective Shareholders' Meetings. Figures at 31/12/2017 refer to the draft financial statements approved by the respective Boards of Directors.

ANNEX 2

Summary figures of draft financial statements of subsidiaries in the advertising segment, il Trovatore and discontinued operations at 31 December 2017.

(€ millions)	Cairo Pubblicità Financial statements at 31.12.17	Il Trovatore Financial statements at 31.12.17	Diellesei S.r.l. in liquidation Financial statements at 31.12.17
Assets			
A) Share capital proceeds to be received	0.00	0.00	0.00
B) Intangible fixed assets	0.00	0.00	0.00
Tangible fixed assets	0.03	0.00	0.00
Financial fixed assets	0.00	0.00	0.00
Total non-current assets	**0.03**	**0.00**	**0.00**
C) Inventories	0.00	0.00	0.00
Receivables	71.79	1.03	0.08
Current financial assets	0.00	0.00	0.00
Liquid funds	6.30	0.05	0.06
Total current assets	**78.09**	**1.08**	**0.14**
D) Prepayments and accrued income	0.27	0.00	0.00
Total assets	**78.39**	**1.08**	**0.14**
Liabilities			
A) Share capital	2.82	0.03	0.01
Income-related and other reserves	0.00	0.01	0.00
Shareholders' contributions to cover losses	0.00	0.00	0.06
Retained earnings/(losses carried forward)	(0.67)	0.33	(0.21)
Net profit/ (loss) for the year	0.14	0.10	(0.00)
Total equity	**2.29**	**0.46**	**(0.14)**
B) Provisions for risks and charges	1.53	0.00	0.06
C) Post-employment benefits	1.48	0.02	0.00
D) Payables	72.74	0.61	0.22
E) Accrued expenses and deferred income	0.35	0.00	0.00
Total liabilities	**78.39**	**1.08**	**0.14**
Income statement			
A) Production revenue	149.17	0.88	0.00
B) Production costs	(148.85)	(0.74)	0.00
Difference between operating revenue and operating expenses	0.31	0.14	0.00
C) Net financial income / (expense)	0.06	0.00	0.00
D) Adjustments to financial assets	0.00	0.00	0.00
Pre-tax profit	**0.37**	**0.14**	**0.00**
Income tax	(0.23)	(0.04)	(0.00)
Net profit/ (loss) for the year	**0.14**	**0.10**	**(0.00)**

ANNEX 3

Summary figures of the draft financial statements of direct subsidiaries in the Cairo Editore publishing segment, TV publishing La7, RCS and network operator at 31 December 2017.

(€ millions)	**Cairo Editore** Financial statements at 31.12.17	**Rcs MediaGroup** Financial statements at 31.12.17	**Cairo Publishing** Financial statements at 31.12.17	**LA7** Financial statements at 31.12.17	**Cairo Network** Financial statements at 31.12.17
Assets					
A) Share capital proceeds to be received	0.00	0.00	0.00	0.00	0.00
B) Intangible fixed assets	8.21	37.48	0.00	18.41	35.27
Tangible fixed assets	1.98	45.71	0.01	1.56	0.00
Investment property	0.00	2.76	0.00	0.00	0.00
Financial fixed assets	0.05	472.02	0.00	0.19	0.00
Total non-current assets	**10.24**	**557.96**	**0.01**	**20.17**	**35.27**
C) Inventories	2.05	10.65	0.07	0.28	0.00
Receivables	26.80	186.28	1.75	63.70	9.72
Current financial assets	0.00	270.33	0.00	0.02	0.00
Liquid funds	5.85	0.68	0.15	93.47	0.09
Total current assets	**34.70**	**467.95**	**1.97**	**157.46**	**9.81**
D) Prepayments and accrued income	0.78	6.21	0.00	0.66	0.00
Total assets	**45.72**	**1,032.12**	**1.98**	**178.29**	**45.08**
Liabilities					
A) Share capital	1.04	475.13	0.01	1.02	5.50
Income-related and other reserves	1.02	101.29	0.01	93.06	0.00
Shareholders' contributions	0.00	0.00	0.13	0.00	0.00
Retained earnings/(losses carried forward)	0.00	(219.96)	0.00	0.04	(0.15)
Net profit/ (loss) for the year	7.13	53.69	(0.21)	(5.30)	(1.29)
Total equity	**9.20**	**410.16**	**(0.06)**	**88.81**	**4.06**
B) Provisions for risks and charges	1.20	34.35	0.33	6.05	0.00
C) Post-employment benefits	1.96	31.69	0.22	7.31	0.02
D) Payables and other liabilities	33.24	548.45	1.48	75.74	41.00
E) Accrued expenses and deferred income	0.12	7.47	0.00	0.39	0.00
Total liabilities	**45.72**	**1,032.12**	**1.98**	**178.29**	**45.08**
Income statement					
A) Production revenue	92.04	500.13	1.36	101.40	8.00
B) Production costs	(81.62)	(458.27)	(1.57)	(109.16)	(9.64)
Difference between operating revenue and operating expenses	10.42	41.86	(0.21)	(7.76)	(1.64)
C) Net financial income / (expense)	0.00	(8.10)	0.00	0.32	(0.06)
D) Adjustments to financial assets	(0.01)	28.64	0.00	(0.01)	0.00
Pre-tax profit	**10.41**	**62.40**	**(0.21)**	**(7.45)**	**(1.70)**
Income tax	(3.28)	(8.71)	0.00	2.15	0.41
Net profit/ (loss) for the year	**7.13**	**53.69**	**(0.21)**	**(5.30)**	**(1.29)**

ANNEX 4

Summary figures of the most recently approved financial statements of the subsidiaries in the advertising segment, il Trovatore and discontinued operations (31 December 2016).

(€ millions)	**Cairo Pubblicità** Financial statements at 31.12.16	**Il Trovatore** Financial statements at 31.12.16	**Diellesei S.r.l. in liquidation** Financial statements at 31.12.16
Assets			
A) Share capital proceeds to be received	0.00	0.00	0.00
B) Intangible fixed assets	0.00	0.00	0.00
Tangible fixed assets	0.04	0.00	0.00
Financial fixed assets	0.00	0.00	0.00
Total non-current assets	**0.04**	**0.00**	**0.00**
C) Inventories	0.00	0.00	0.00
Receivables	74.27	0.78	0.08
Current financial assets	0.00	0.00	0.00
Liquid funds	2.61	0.10	0.06
Total current assets	**76.88**	**0.87**	**0.14**
D) Prepayments and accrued income	0.22	0.00	0.00
Total assets	**77.14**	**0.87**	**0.14**
Liabilities			
A) Share capital	2.82	0.03	0.01
Income-related and other reserves	0.00	0.01	0.00
Shareholders' contributions to cover losses	0.00	0.00	0.06
Retained earnings/(losses carried forward)	(0.57)	0.24	(0.20)
Net profit/ (loss) for the year	(1.10)	0.09	(0.01)
Total equity	**1.15**	**0.36**	**(0.14)**
B) Provisions for risks and charges	1.45	0.00	0.06
C) Post-employment benefits	1.29	0.02	0.00
D) Payables	73.11	0.50	0.22
E) Accrued expenses and deferred income	0.15	0.00	0.00
Total liabilities	**77.14**	**0.87**	**0.14**
Income statement			
A) Production revenue	149.88	0.95	0.00
B) Production costs	(151.35)	(0.82)	(0.00)
Difference between operating revenue and operating exp	(1.47)	0.14	(0.00)
C) Net financial income / (expense)	0.05	(0.00)	(0.00)
D) Adjustments to financial assets	0.00	0.00	0.00
Pre-tax profit	**(1.42)**	**0.14**	**(0.00)**
Income tax	(0.32)	(0.05)	(0.01)
Net profit/ (loss) for the year	**(1.10)**	**0.09**	**(0.01)**

ANNEX 5

Summary figures of the most recently approved financial statements of direct subsidiaries in the Cairo Editore publishing segment, TV publishing La7, RCS and network operator (31 December 2016).

(€ millions)	**Cairo Editore** Financial statements at 31.12.16	**Rcs MediaGroup** Financial statements at 31.12.16	**Cairo Publishing** Financial statements at 31.12.16	**LA7** Financial statements at 31.12.16	**Cairo Network** Financial statements at 31.12.16
Assets					
A) Share capital proceeds to be received	0.00	0.00	0.00	0.00	0.00
B) Intangible fixed assets	9.48	46.20	0.00	16.49	37.47
Tangible fixed assets	2.05	53.13	0.00	2.48	0.00
Investment property	0.00	2.77	0.00	0.00	0.00
Financial fixed assets	0.07	1215.14	0.00	0.23	0.00
Total non-current assets	**11.59**	**1,317.23**	**0.00**	**19.20**	**37.47**
C) Inventories	2.42	11.18	0.09	0.33	0.00
Receivables	28.28	207.94	1.94	52.41	0.38
Current financial assets	0.00	19.49	0.00	0.47	0.00
Liquid funds	2.31	1.14	0.17	95.50	0.03
Total current assets	**33.01**	**239.74**	**2.20**	**148.70**	**0.41**
D) Prepayments and accrued income	0.35	4.50	0.00	0.58	0.00
Capital invested in assets held for sale					
Total assets	**44.96**	**1,561.48**	**2.20**	**168.48**	**37.88**
Liabilities					
A) Share capital	1.04	475.13	0.01	1.02	5.50
Income-related and other reserves	1.02	98.54	0.01	103.86	0.00
Shareholders' contributions	0.00		0.29	0.00	0.00
Retained earnings/(losses carried forward)	0.00	(210.75)	0.00	0.04	(0.06)
Net profit/ (loss) for the year	8.49	(9.21)	(0.16)	(10.80)	(0.09)
Total equity	**10.56**	**353.72**	**0.15**	**94.11**	**5.35**
B) Provisions for risks and charges	1.79	38.24	0.28	7.01	0.00
C) Post-employment benefits	2.10	33.70	0.22	7.50	0.01
D) Payables	30.43	1130.72	1.55	59.81	32.52
E) Accrued expenses and deferred income	0.07	5.10	0.00	0.05	0.00
Total liabilities	**44.96**	**1,561.48**	**2.20**	**168.48**	**37.88**
Income statement					
A) Production revenue	98.91	559.42	1.22	105.67	1.12
B) Production costs	(85.73)	(558.28)	(1.42)	(121.82)	(1.24)
Difference between operating revenue and operating expense:	13.18	1.14	(0.20)	(16.14)	(0.12)
C) Net financial income / (expense)	0.01	(34.62)	0.00	0.60	(0.00)
D) Adjustments to financial assets	0.00	19.74	0.00	(0.06)	0.00
Pre-tax profit	**13.19**	**(13.73)**	**(0.20)**	**(15.60)**	**(0.12)**
Income tax	(4.70)	4.52	0.04	4.80	0.03
Profit (loss) from assets held for sale and discontinued operations					
Net profit/ (loss) for the year	**8.49**	**(9.21)**	**(0.16)**	**(10.80)**	**(0.09)**

APPENDIX

Information pursuant to Article 149-duodecies of Consob Issuer Regulations

The following summary, prepared pursuant to art. 149-xii of Consob Issuer Regulations, shows the fees for the current period for auditing services and for non-audit services provided by the Audit Firm.

(€ millions)	Services provided by	Fees for the year
Audit		
Parent - Cairo Communication S.p.A.	KPMG S.p.A.	0.1
Subsidiaries - Italy	KPMG S.p.A.	0.9
Subsidiaries - Abroad	KPMG (*)	0.7
Other		
Parent - Cairo Communication S.p.A. (**)	KPMG S.p.A.	0.1
Subsidiaries (***)	KPMG (*)	0.3
Total		**2.1**

(*) Other companies belonging to the same network as KPMG S.p.A.
(**) Services for gap assessment and methodological support in the mapping of corporate risks and in the data collecting of non-financial information.
(***) Services for methodological support and assistance in the testing phase pursuant to art. 154 bis of the TUF, and in the data collecting phase of non-financial information.

CERTIFICATION OF THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED

1. The undersigned Urbano Roberto Cairo, as Chairman of the Board of Directors, and Marco Pompignoli, as Financial Reporting Manager of Cairo Communication S.p.A., also in accordance with art. 154 bis, paragraphs 3 and 4 of Legislative Decree no. 58 of 24 February 1998, certify:

• the adequacy of the characteristics of the Company and

• the effective application of administrative and accounting procedures for the preparation of the 2017 separate financial statements.

2. We also certify that:

2.1 the separate financial statements at 31 December 2017:

a) have been prepared in compliance with International Financial Reporting Standards endorsed by the European Union, pursuant to EEC Regulation 1606/2002 of the European Parliament and Council, of 19 July 2002,

b) are consistent with the accounting records and books of the Company,

c) give a true and fair view of the financial position and results of operations of the Issuer;

2.2 the Directors' Report contains a reliable analysis on performance and operating results, as well as on the position of the Issuer, together with a description of the principal risks and uncertainties to which it is exposed.

Milan, 26 March 2018

For the Board of Directors
Chairman

…………………………………………….

(Urbano Roberto Cairo)

Financial Reporting Manager

……………………………………………

(Marco Pompignoli)

KPMG S.p.A.
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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
Cairo Communication S.p.A.

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of Cairo Communication S.p.A. (the "Company"), which comprise the income statement at 31 December 2017, the statements of comprehensive income, financial position, cash flows and changes in equity for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of Cairo Communication S.p.A. as at 31 December 2017 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the separate financial statements*" section of our report. We are independent of Cairo Communication S.p.A. (the "Company") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of the investment in the subsidiary RCS MediaGroup S.p.A.

Notes to the separate financial statements: Note 12 "Equity investments"

Key audit matter	**Audit procedures addressing the key audit matter**
The separate financial statements at 31 December 2017 include equity investments of €328.9 million, comprising the investment of €304.9 million in the subsidiary RCS MediaGroup S.p.A.. The Company tests the carrying amount of the investment for impairment annually and, in any case, whenever there are indicators of impairment, by comparing it with its estimated recoverable amount. The Company calculated the recoverable amount of its investment in the subsidiary RCS MediaGroup S.p.A. by estimating its value in use, using a method that discounts its expected cash flows. The model is very complex and entails the use of estimates which, by their very nature, are uncertain and subjective, about: — the expected cash flows, calculated by taking into account the general economic performance and that of the subsidiary's sector, the actual cash flows for past years and the projected growth rates; — the parameters used to calculate the discount rate. For the above reasons and considering the materiality of the caption, we believe that the measurement of the investment in the subsidiary RCS MediaGroup S.p.A. is a key audit matter.	Our audit procedures included: — understanding the process adopted to prepare the impairment tests approved by the Company's board of directors; — understanding the process adopted to prepare the forecasts from which the expected cash flows used for impairment testing have been derived; — analysing the reasonableness of the assumptions used to prepare the forecasts; — checking any discrepancies between the previous year forecast and actual figures, in order to check the accuracy of the estimation process; — comparing the expected cash flows used for impairment testing to those forecast in the business plans and analysing the reasonableness of any discrepancies; — involving experts of the KPMG network in the assessment of the reasonableness of the impairment testing model and related assumptions, including by means of comparison with external data and information; — checking the sensitivity analysis presented in the notes in relation to the key assumptions used for impairment testing;

Key audit matter	Audit procedures addressing the key audit matter
	— assessing the appropriateness of the disclosures provided in the notes about the recoverability of the investment in the subsidiary RCS MediaGroup S.p.A..

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Cairo Communication S.p.A. for the separate financial statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the Company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the Company's financial reporting process.

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in this report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 28 April 2011, the shareholders of Cairo Communication S.p.A. appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2011 to 31 December 2019.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The directors of Cairo Communication S.p.A. are responsible for the preparation of the Company's directors' report and report on corporate governance and ownership structure at 31 December 2017 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the Company's separate financial statements at 31 December 2017 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the separate financial statements of Cairo Communication S.p.A. at 31 December 2017 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 29 March 2018

KPMG S.p.A.

(signed on the original)

Francesco Spadaro
Director of Audit

Report of the Board of Statutory Auditors
to the Shareholders' Meeting of Cairo Communication S.p.A.
pursuant to art. 153 of Legislative Decree 58/1998

Shareholders,
reminding you that the current Board was appointed by the Shareholders' Meeting held on 8 May 2017, pursuant to art. 153, par. 1, of Legislative Decree n. 58 of 24 February 1998, we hereby inform you that during the year ended 31 December 2017, we performed the oversight duties prescribed by law, taking into account the standards of conduct recommended by the Italian Association of Public Accountants and Accounting Professionals, and the relevant instructions provided by CONSOB communications concerning corporate control and the activities of the Board .

The above being stated, these are the results of the prescribed oversight duties performed during the year:

- we attended the Shareholders' Meetings and those of the Board of Directors held during the year, receiving from the Directors, in accordance with their obligations to report to the Board of Statutory Auditors, under art. 150, par. 1, of Legislative Decree n. 58/1998, timely and appropriate information on the overall business performance and outlook, and the most relevant transactions, in terms of size and nature, made by the Company and its subsidiaries;

- to the extent of our responsibilities, we gathered information on compliance with the law and bylaws, and oversaw compliance with the principles of proper governance and appropriateness of the Company's organizational structure, through direct observation, through information gathered from the managers of the departments involved, through regular exchange of information with the Independent Auditors tasked with the statutory audit, by attending the meetings of the Control and Risk Committee, the Remuneration and Appointments Committee, the Related Party Committee and meetings with the Supervisory Body;

- we oversaw the operation and effectiveness of the internal control systems and the adequacy of the administrative-accounting system and, specifically, its reliability to properly illustrate operational events;

- as “Internal Control and Audit Committee” pursuant to art. 19 of Italian Legislative Decree no. 39/2010, carried out the supervisory activity prescribed therein with regard to: a) the financial reporting process; b) the effectiveness of the internal control and corporate risk management systems, as regards financial reporting, without violating its independence; c) the statutory audit of the financial statements and the consolidated financial statements; d) the independence of the Independent Auditors as required by law, in particular as regards the adequacy of the provision of services other than auditing, in accordance with art. 5 of Regulation (EU) No. 537/2014. The Independent Auditors provided us with the Reports, pursuant to art. 14 of Legislative Decree no. 39/2010 and to art. 11 of Regulation (EU) No. 537/2014, as well as the certification of the "Annual Confirmation of Independence”, pursuant to art. 6 of Regulation (EU) No. 537/2014. We analyzed, again pursuant to art. 6, the risks regarding the independence of the Independent Auditors and the measures it adopted to constrain such risks;
- we controlled the proper operation of the audit system on Group companies and the appropriateness of instructions given to them, pursuant also to art. 114, par. 2, of Legislative Decree n. 58/1998;
- we took note of the preparation of the Remuneration Report, pursuant to art. 123 *ter* of Legislative Decree n. 58 of 24 February 1998, and to art. 84 *quater* of CONSOB Regulations 11971/1999, with no particular issues to report;
- we controlled the actual implementation of corporate governance rules provided by the Corporate Governance Code for Listed Companies issued by Borsa Italiana S.p.A., as adopted by the Company;
- we oversaw compliance of the internal procedure referred to related-party transactions with the principles contained in the Regulations approved by CONSOB through resolution n. 17221 of 12 March 2010 and subsequent amendments, and compliance with the above Regulations, pursuant to art. 4, par. 6;
- we verified compliance with the laws and regulations on the preparation and layout of the financial statements and consolidated financial statements, as well as the documents attached thereto. Specifically, the financial statements and consolidated

financial statements are accompanied by the prescribed statements of conformity signed by the Chairman of the Board of Directors and by the Financial Reporting Manager, pursuant to art. 81-*ter* of CONSOB Regulations n. 11971 of 14 May 1999 and subsequent amendments and supplements;

- we verified that the Directors' Report for 2017 complies with the laws and regulations, consistent with the resolutions adopted by the Board of Directors and with the facts illustrated in the financial statements and consolidated financial statements. The half-year report and quarterly reports were published in accordance with the law and regulations currently in force and required no comments from the Board of Statutory Auditors.

The specific indications to provide with this Report are listed below, in accordance with the provisions of CONSOB Communication n. DEM/1025564 of 6 April 2001 and subsequent amendments:

1. We gathered information on the transactions having a significant impact on the balance sheet, income statement and cash flows carried out during the year, also through subsidiaries, to verify that they were made in compliance with the law and bylaws and that they were neither imprudent or such as to jeopardize the integrity of corporate assets.

2. In the course of its work, the Board did not identify any atypical and/or unusual transactions made during the year with third, intra-group or related parties.

   The procedures adopted by the Company for related party transactions are illustrated in section 12 of the "Report on corporate governance and ownership structure" approved by the Board of Directors on 26 March 2018.

   The characteristics of intra-group and related party transactions put in place in 2017, the parties involved and the relating financial effects are appropriately presented and explained in a specific section in the notes to the financial statements and consolidated financial statements, to which reference is made.

   Pursuant to art. 4, par. 6 of the CONSOB Regulations approved by the above resolution n. 17221/2010 of 12 March 2010 and subsequent amendments and supplements, which governs the decision-making process and the mandatory information regarding Related-Party Transactions, we oversaw:

i) compliance of the procedures adopted by the Company with the principles contained in the above regulations and their observance;

ii) fairness and correspondence of intra-group and related-party transactions with the interests of the Company.

3. In our view, the information provided by the Directors in their Report, pursuant to art. 2428 of the Italian Civil Code (Directors' Report), regarding atypical and/or unusual transactions and ordinary transactions, under the previous point, is to be considered exhaustive and complete.

4. KPMG S.p.A., the Independent Auditors tasked with performing the statutory audit, with which we held regular meetings during the year, today issued the Reports under art. 14 of Legislative Decree n. 39/2010, certifying that the financial statements and consolidated financial statements for the year ended 31 December 2017 give a true and fair view of assets, liabilities, financial position, results of operations and cash flows, and that the Directors' Report and the disclosures under art. 123-*bis*, par. 4, of Legislative Decree n. 58/1998 are consistent with the financial statements of the Company and with the consolidated financial statements of the Group, and have been drawn up in accordance with the law. These reports do not contain any issues of note or explanatory comments.

5. In 2017, a shareholder sent no. 3 complaints, pursuant to art. 2408 of the Italian Civil Code, to the Company's certified e-mail address.
In this regard, the Board of Statutory Auditors did not recognize the conditions for conducting further inquiries, and did not consider them worthy of reprehension.

6. In 2017, the Board received no complaints from third parties.

7. During the year, the Company assigned KPMG S.p.A. the task of performing a limited audit on the consolidated non-financial statement for a total of Euro 20,000. Additional tasks were assigned to subjects that are part of the "network" of KPMG S.p.A. for non-statutory audit services for a total of Euro 45,000. Where necessary, the Board of Statutory Auditors issued its authorization, pursuant to art. 5 of Regulation (EU) No. 537/2014.

8. In 2017, the Board issued its opinion as prescribed by law on the determination of compensation to key management personnel, as established by the Board of Directors on the proposal of the Remuneration and Appointments Committee.

9. In 2017, the Board of Directors met six times, the Control and Risk Committee seven times, the Remuneration and Appointments Committee three times, the Related Party Committee six times and the Board of Statutory Auditors nine times. The Board of Statutory Auditors acquired knowledge and oversaw compliance with the law and bylaws and observance of the principles of proper governance, ensuring that actions decided and taken by the Directors complied with the law and bylaws, and were made in a perspective of profitability, and that they were neither imprudent nor reckless, or in potential conflict of interest or in contrast with the resolutions adopted by the Shareholders' Meeting, or such as to jeopardize the integrity of corporate assets.

10. With regard to the adequacy of the organizational structure of the Company and of the Group, the oversight duties of the Board of Statutory Auditors were performed by acquiring knowledge of the organizational structure through information gathered from each area, through meetings with the managers of the various departments and with the Independent Auditors as part of a regular exchange of data and information.

11. The Board acquired knowledge and oversaw the adequacy and effectiveness of the internal control system, pursuant also to art. 19 of Legislative Decree 39/2010, through regular meetings with the Director in charge of the internal control system and by attending the meetings of the Control and Risk Committee, the Remuneration and Appointments Committee, the Related Party Committee, and the meetings with the Model 231/2001 Supervisory Body.

12. The Board also oversaw the adequacy and reliability of the administrative-accounting system to properly illustrate operational events, through direct observation, through information received by the managers of the departments involved, by examining company documents and by analyzing the results of the work performed by the Independent Auditors.

13. The Board controlled the operation of the internal control system over subsidiaries and the adequacy of the instructions given to the subsidiaries by the Company, pursuant to art. 114, par. 2, of Legislative Decree n. 58/98, in order for the Group companies to provide the required information to comply with statutory disclosure obligations. No exceptions were reported in this regard.
14. During the regular meetings held by the Board of Statutory Auditors with the Independent Auditors, pursuant to art. 150, paragraph 3, of Legislative Decree no. 58/1998, no significant issues emerged that need to be specifically mentioned in this Report.
15. The Board also controlled the actual implementation of corporate governance rules provided by the Corporate Governance Code for Listed Companies issued by Borsa Italiana S.p.A., as adopted by the Company.
16. With regard to the oversight duties performed as mentioned above, there were no omissions, reprehensible facts or irregularities reportable to the competent authorities and/or the supervisory boards, or worthy of mention in this Report.
17. Pursuant to the provisions of art. 3, par. 7, of Legislative Decree 254 of 30 December 2016, we confirm that, with regard to the "Consolidated Non-Financial Statement", the Board of Statutory Auditors supervised, to the extent of its responsibilities, compliance with the provisions set out in the above decree. The Board of Directors has appointed KPMG S.p.A., the entity in charge of the statutory audit, to perform the tasks set out in art. 4, par. 10, of the decree, which issued a statement on the compliance of the information presented with the requirements of articles 3 and 4 of the above decree.
18. The Board assessed the absence of grounds for forfeiture of its members, pursuant to art. 148 TUF, as well as the continued validity of the independence requirements, pursuant to par. 3 of the above article and to the Application Criterion 8.C.1 of the Corporate Governance Code for Listed Companies.
19. To conclude, the Board of Statutory Auditors performed its own assessments on compliance with the rules of law regarding the preparation of the draft financial statements and consolidated financial statements of the Group for the year ended 31 December 2017, of the relating explanatory notes and the Directors' Report

attached thereto, either directly, assisted by department managers or through information received from the Independent Auditors.

Based on all the foregoing considerations, with regard to the oversight duties performed during the year, the Board of Statutory Auditors has no particular remarks to make, pursuant to art. 153 of Legislative Decree n. 58/1998, and does not identify, within the sphere of its responsibility, any reasons to impede the approval of the financial statements for the year ended 31 December 2017, agreeing with the proposal of the Board of Directors on the allocation of profit for the year.

Milan, 29 March 2018

For the Board of Statutory Auditors

Michele Paolillo - Chairman