



CAIRO COMMUNICATION

Interim Management Statement at 30 September 2018

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



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

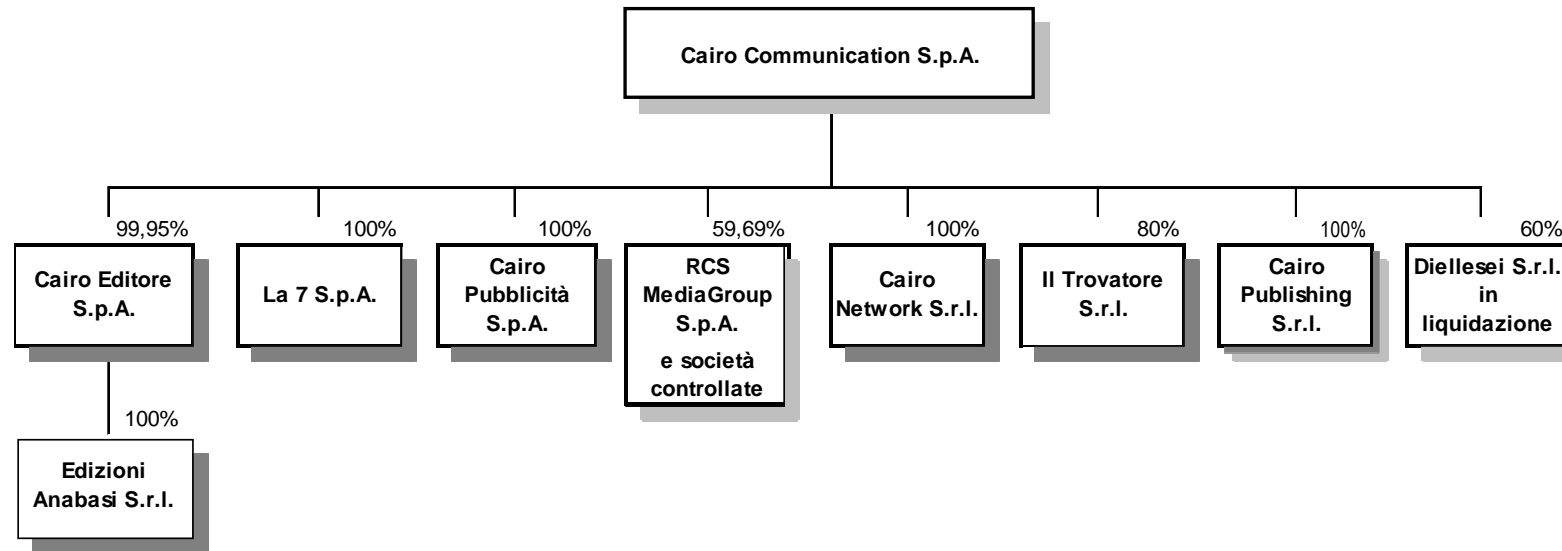
Independent Auditors

KPMG S.p.A.

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



The Group at 30 September 2018





1. Valuation principles and criteria adopted in preparing the Interim Management Statement at 30 September 2018

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

The Interim Management Statement at 30 September 2018 has been prepared in accordance with the requirements set out in Borsa Italiana Notice no. 7587 of 21 April 2016: “STAR Issuers: information on interim management statements”.

The consolidated and separate income statement figures in the third quarter and in the first nine months of 2018 are shown versus the corresponding periods of 2017. Statement of financial position and equity figures appearing in the financial statements are compared with the figures of the consolidated financial statements at 31 December 2017.

The quarterly financial statements at 30 September 2018, as for those at 30 September 2017, have been prepared net of taxes and tax effects.

The Interim Management Statement at 30 September 2018, with respect to the 2017 Annual Report, incorporates the new IFRS 15 and IFRS 9, which came into effect as from 1 January 2018. For both of these standards, the Company opted not to restate comparative figures. Accordingly, it should be noted that, with regard to consolidated income statement and balance sheet figures:

- the impact of IFRS 15 on the figures in the first nine months of 2018 produced an increase in net revenue of Euro 80.3 million (revenue from publications sold Euro +98.9 million, advertising revenue Euro -8.1 million, other revenue Euro -10.5 million), with no effects on the margin in the first nine months of 2018 and on initial equity,
- the impact of IFRS 9 produced a drop in receivables of Euro 1.2 million, with a consequent reduction of Euro 0.6 million (net of the tax effect) in initial Group equity, with no significant change, however, in the income statement amounts in the first nine months of 2018.

The 2017 Annual Report and the Half-Year Report at 30 June 2018 provide an explanation of the various cases involved in the section relating to the new accounting standards, referring mainly: (i) for IFRS 15, to the presentation of publishing revenue gross of the distribution margin, and the recognition in revenue solely of the margin from foreign sporting events and (ii) for IFRS 9, to the recognition 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 set out by IAS 39.

There were no changes in 2018 to the scope of consolidation from the consolidated financial statements for the year ended 31 December 2017, except for Planet Sfera S.r.l. (in liquidation), previously consolidated on a line-by-line basis, and for Planet Sfera S.l. and Gold 5 S.r.l. (in liquidation), previously consolidated at equity, then deconsolidated. It should be noted that Fabripress S.A., consolidated at equity, was merged into Bermont Impresión S.L..

2. Alternative performance measures

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

The alternative measures are:

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

Result from continuing operations, before taxes

+/- Net finance income

+/- Share in associates

EBIT - Operating profit

+ Amortization & depreciation

+ Bad debt impairment losses

+ Provisions for risks

+ Income (expense) from equity-accounted investees

EBITDA – Operating profit, before amortization, depreciation, provisions 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 equity-accounted investees.

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 Interim Management Statement at 30 September 2018, consolidated EBITDA has been determined consistently with the definition adopted by Cairo Communication.

The Cairo Communication Group also considers the **net financial position (net financial debt)** as a valid measure 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.

3. Group performance

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 one of 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 the first nine months of 2018, the 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.

In the first nine months of 2018, the general economic and financial context continued to be marked by uncertainty.



In Italy, in third quarter 2018, preliminary estimates by ISTAT show no growth in GDP versus the prior quarter. As a result, the trend growth rate (12 mobile months) drops to 0.8% from 1.2% at the end of second quarter 2018 (*ISTAT*).

In Spain, in third quarter 2018, estimates show a 0.6% growth in GDP, similar to the rate seen in the second quarter. YoY growth (12 mobile months) reaches +2.5% at the end of third quarter 2018 (preliminary figures from INE - National Institute of Statistics).

In Italy, in the first nine months of 2018, the advertising market basically confirmed the figures of the corresponding period of 2017, with magazine and newspaper advertising markets down by 8.9% and 6.2%, while TV and online advertising grew by 1.2% and 4% versus 2017 (*AC Nielsen*).

In Spain, in the first nine months of 2018, the advertising sales market was up by 0.5% versus the same period of 2017 (*i2p, Arce Media*). Specifically, the newspaper and magazine market fell by 6.6% and 7.9%, respectively, versus 2017. Advertising sales on the Internet (excluding social media) drove the market and increased by 11%.

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

Looking at circulation in Italy, the print product market continued its downturn in the first months of 2018. Specifically, the main national generalist daily newspapers (with a circulation above 50 thousand copies) reported a 5.7% drop in circulation in the first 8 months of 2018 (including digital copies), while the main sports newspapers fell by 11% (including digital copies) versus the same period of 2017 (*ADS, January-August 2018*).

The same trend was reported in Spain, with daily newspaper sales down versus 2017. Cumulative figures on circulation at September 2018 (*OJD*) regarding generalist newspapers (generalist newspapers with a circulation above 60 thousand copies), business newspapers and sports newspapers indicate a drop of 10.1%, 3.9% and 10.8%, respectively.

In the first nine months of 2018:

- **RCS** continued its relaunch, with margins growing strongly versus the same period of the prior year, in line with the 2018 performance targets, thanks to the initiatives implemented to maintain and develop revenue and to the ongoing efficiency actions, which generated benefits of approximately Euro 17.7 million in the period. In the first nine months of 2018,



RCS achieved a profit of Euro 52.1 million¹ (more than double the Euro 19.8 million¹ in the first nine months of 2017) .

- the **TV publishing segment La7** reported a sharp increase in La7's audience (+29.6% in the all-day share and +41.2% in prime time versus the same period of 2017). Advertising sales on La7 and La7d, amounting to Euro 99.8 million, also rose versus the first nine months of 2017 (Euro 96.2 million), up in the third quarter (+11% with September over +13%) and confirmed in the October-November two-month period;
- 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 this Interim Management Statement incorporates the new IFRS 15, which came into effect as from 1 January 2018. The income statement figures of 2018, therefore, cannot be directly compared with the corresponding amounts of the same period of the prior year. Specifically, if this new standard had not been applied, consolidated gross revenue in the first nine months of 2018 would have amounted to Euro 878.9 million instead of Euro 957.7 million, with a difference of Euro 78.8 million² (Euro 80.3 million the effect, previously explained, on net revenue, which resulted in a corresponding increase in the cost of raw and ancillary materials and consumables of Euro 14.5 million and in service costs of Euro 65.8 million).

In the first nine months of 2018, Group consolidated gross revenue amounted to approximately Euro 957.7 million (comprising gross operating revenue of Euro 939.4 million and other revenue and income of Euro 18.3 million). Excluding from the comparison with the figures in the first nine months of 2017 the effects arising from the adoption of the new IFRS 15, consolidated gross revenue would be basically steady. Gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 117.7 million and Euro 75.7 million (Euro 104.7 million and Euro 56.8 million in the same period of the prior year). Profit attributable to the owners of the parent came to approximately Euro 31.4 million (Euro 17.3 million in 2017).

Looking at the business segments, in the first nine months of 2018:

¹ Amounts and comparisons based on the RCS Interim Management Statement at 30 September 2018, approved on 9 November 2018

² Attributable to higher revenue from the sale of publications of Euro 98.9 million, to advertising revenue of Euro -9.6 million and to other revenue of Euro -10.5 million



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- in the **magazine publishing segment (Cairo Editore)**, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 6.9 million and Euro 6.1 million (Euro 10.1 million and Euro 9.3 million in the same period of 2017), and were impacted negatively by the launch costs of approximately Euro 0.5 million incurred for “*Enigmistica Mia*”. Regarding weeklies, with approximately 1.6 million average copies sold in the January-September nine-month period of 2018 (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*” and of “*Enigmistica Mia*”), average copies sold were approximately 1.7 million;
 - in the **TV publishing segment (La7)**, the Group achieved gross operating profit (EBITDA) of approximately Euro 1.1 million (Euro 2.5 million in the first nine months of 2017), impacted also by increased programming costs of approximately Euro 3 million to improve programming quality, which contributed to the strong growth of the share, and by increased costs for television signal transmission incurred for the Group company Cairo Network. Mention should be made that the TV publishing segment’s seasonality factors generally impact on the results of the third quarter of the year. There is usually a certain time gap between audience trends and advertising sales results. In third quarter 2018, following the remarkable audience results reported in the first half, total advertising sales of La7 and La7d, in fact, accelerated their growth trend (+11%); based on the order book at 13 November 2018, sales from advertising aired and to be aired on the two channels in October and November 2018, amounting to Euro 31.8 million, already increased by over 13% versus the same two-month period of 2017 (Euro 28 million). Based on the above results, growth is expected to be stronger than the target for advertising on the two channels in the last four months of 2018 (+10%) announced on approval of the 2018 Half-Year Report. Operating profit (EBIT) came to approximately Euro -6.1 million (Euro -4.8 million in 2017);
 - in the **network operator segment**, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 0.8 million and Euro -0.9 million (Euro 0.4 million and Euro -1.3 million in 2017);
 - in the **advertising segment**, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 0.9 million and Euro 0.7 million (Euro 0.6 million and Euro 0.5 million in 2017);



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- in the **RCS segment**, in the consolidated financial statements of Cairo Communication, gross operating profit (EBITDA) and operating profit (EBIT) amounted to Euro 108 million³ and Euro 75.8 million, rising sharply by Euro 17 million and Euro 22.7 million versus the same period of 2017 (Euro 91 million and Euro 53.1 million). Mention should be made that RCS's seasonality factors generally impact on the results of the first and third quarters of the year. Net operating revenue amounted to Euro 713.3 million. Excluding from the comparison with the figures in the first nine months of 2017 the effects arising from the adoption of the new IFRS 15 (Euro +61.2 million), RCS total revenue would be basically steady. At circulation level, the dailies *Corriere della Sera*, *La Gazzetta dello Sport*, *Marca* and *Expansión* continue to lead their respective segments. *El Mundo* is the second most popular general daily in Spain for circulation at newsstands. In the first nine months of 2018, the digital performance indicators of the RCS daily newspaper sites continued to grow strongly: average unique browsers/month of *gazzetta.it* increased by 25.8% (35.8 million) and *corriere.it* by 6.7% (49.5 million) versus the same period of 2017 (*Adobe Analytics*). In September, the total active customer base for *Corriere* was 133 thousand subscribers. In Spain too, average unique browsers/month of *elmundo.es* (+16.2% reaching 55.2 million) and *marca.com* (+31.2% reaching 58.3 million) grew versus the same period of the prior year (*Omniure*). Against this backdrop, RCS revenue from digital activities rose by 15.9% versus the same period in 2017 to reach Euro 112.2 million, propelled also by the growth in digital advertising revenue, which reached approximately Euro 86 million in the first nine months of the year (+18.1% versus the same period of 2017).

In the first nine months of 2018, La7's average all-day share was 3.68%, up by 29.6% versus the same period of 2017, and 4.87% in prime time (from 8:30 PM to 10:30 PM), rising sharply by 41.2% versus 2017, with a high-quality target audience. La7d's share was 0.52% (0.41% in prime time). The channel's news and discussion programmes all continued to show remarkable and increasingly strong audience figures: *Otto e Mezzo* with a 6.9% average share (+21% versus 2017), *TgLa7 edizione delle 20* 5.8% from Monday to Friday (+6.9% versus 2017), *diMartedì* 7.8% (+62.9% versus 2017), *Piazzapulita* 6% (+50.9% versus 2017), *Propaganda Live* 4.4%, *Non è l'Arena* 7.2%, *Omnibus Dibattito* 4.6% (+24.4% versus 2017), *Coffee Break* 4.9%

³ 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 Measures". As a result of these differences, which lie in the provisions for risks and in the allowance for impairment, amounting to Euro 6.2 million in the nine months - EBITDA shown in the RCS Interim Management Statement at 30 September 2018, approved on 9 November 2018, amounted to Euro 101.8 million



(+26.3% versus 2017), *L'Aria che tira* 6.9% (+31.3% versus 2017), *Tagadà* 3.7% (+49.4% versus 2017), *In Onda* 5,1% (+24.8% versus 2017), the *Maratone Mentana* (14.27% share on 4 March) and the election specials.

In the first nine months of the year, La7 was the sixth national channel for average prime time audience; specifically, in March and April, it was the sixth also in all-day, in May the fifth in all-day and third in prime time; in the second fortnight of September, at the restart of programmes, it was fifth in prime time. The remarkable audience results were repeated in October (+40% in all-day and +48% in prime time; these results made La7 respectively the sixth and fifth national channel in the two slots). Specifically, in October 2018, with a 7.14% share, La7 was the third channel on the top 30% of the population for spending capacity (new ranking Auditel CSE 3.0), a highly coveted audience in terms of advertising.

The main **consolidated income statement figures** in the first nine months of 2018 can be compared as follows with those of 2017:

(€ millions)	30/09/2018	30/09/2017
Gross operating revenue	939.4	864.4
Advertising agency discounts	(51.1)	(53.5)
Net operating revenue	888.3	810.8
Change in inventories	2.0	(0.3)
Other revenue and income	18.3	18.3
Total revenue	908.7	828.8
Production cost	(550.7)	(484.6)
Personnel expense	(241.8)	(239.1)
Income (expense) from equity-accounted investees	1.6	0.4
Non-recurring income (expense)	(0.1)	(0.9)
Gross operating profit (EBITDA)	117.7	104.7
Amortization, depreciation, provisions and impairment losses	(42.0)	(47.8)
EBIT	75.7	56.8
Income (loss) on investments	1.5	1.6
Net financial income	(14.2)	(19.2)
Profit (loss) before taxes	63.0	39.3
Income taxes	(11.1)	(12.5)
Non-controlling interests	(20.6)	(9.5)
Profit from continuing operations attributable to the owners of the parent	31.2	17.3
Profit (loss) from discontinued operations	0.2	-
Profit attributable to the owners of the parent	31.4	17.3



In the first nine months of 2018, consolidated gross revenue amounted to approximately Euro 957.7 million (comprising gross operating revenue of Euro 939.4 million and other revenue and income of Euro 18.3 million) versus Euro 882.7 million in the same period of 2017 (comprising gross operating revenue of Euro 864.4 million and other revenue and income of Euro 18.3 million). Mention should be made that if the new IFRS 15, which came into force as from 1 January 2018, had not been applied, consolidated gross revenue in the first nine months of 2018 would have amounted to Euro 878.9 million instead of Euro 957.7 million.

Consolidated gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro 117.7 million and Euro 75.7 million (Euro 104.7 million and Euro 56.8 million in 2017). In the first nine months of 2018, the overall net effect of non-recurring income and expense was basically zero, resulting from income of Euro 2.6 million, offset by expense of the same amount, attributable to the RCS segment. At 30 September 2017, net non-recurring expense amounted to Euro -0.9 million.

As explained earlier, in the first nine months of 2018, 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 1.3 million (Euro 2.4 million in 2017), 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 was negatively affected, in the consolidated financial statements, by higher amortization of intangible assets of Euro 1.5 million, due to the valuations made in the purchase price allocation of the investment in RCS, specifically to the allocation of amounts to intangible assets (previously unrecognized), mainly Italian trademarks and magazine titles with finite useful life.

The main **consolidated income statement figures** in **third quarter** 2018 can be compared as follows with those of the same period of 2017:



(€ millions)	30/09/2018 (Three months)	30/09/2017 (Three months)
Gross operating revenue	274.8	243.4
Advertising agency discounts	(12.7)	(14.0)
Net operating revenue	262.1	229.4
Change in inventories	1.4	(0.1)
Other revenue and income	4.8	6.0
Total revenue	268.3	235.3
Production cost	(171.4)	(140.3)
Personnel expense	(76.3)	(74.7)
Income (expense) from equity-accounted investees	0.7	-
Non-recurring income (expense)	(0.1)	(0.9)
Gross operating profit (EBITDA)	21.1	19.4
Amortization, depreciation, provisions and impairment losses	(12.9)	(15.8)
EBIT	8.3	3.6
Income (loss) on investments	-	0.4
Net financial income	(3.3)	(6.1)
Profit (loss) before taxes	5.1	(2.1)
Income taxes	(0.8)	(1.8)
Non-controlling interests	(2.5)	1.3
Profit from continuing operations attributable to the owners of the parent	1.8	(2.6)
Profit (loss) from discontinued operations	-	-
Profit attributable to the owners of the parent	1.8	(2.6)

In third quarter 2018, consolidated gross revenue amounted to approximately Euro 279.6 million (Euro 249.4 million in the same quarter of 2017). If the new IFRS 15, which came into force as from 1 January 2018, had not been applied, consolidated gross revenue in third quarter 2018 would have amounted to Euro 247.2 million instead of Euro 279.6 million. Consolidated gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro 21.1 million and Euro 8.3 million (Euro 19.4 million and Euro 3.6 million in 2017). These margins in the quarter include net non-recurring expense of Euro 0.1 million (Euro 0.9 million at 30 September 2017).

In third quarter 2018:

- operating profit (EBIT) in the TV publishing segment (La7) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 0.4 million (Euro 0.7 million in third quarter 2017), due to the write-down of tangible and intangible assets made in 2013 in the purchase price allocation of the investment;



- operating profit (EBIT) in the RCS segment was negatively affected, in the consolidated financial statements, by higher amortization and depreciation of Euro 0.5 million (Euro 0.5 million in third quarter 2017), due to the valuations made in the purchase price allocation of the investment in RCS.

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

€ millions	30 September 2018 (Nine months)	30 September 2018 (Three months)	30 September 2017 (Nine months)	30 September 2017 (Three months)
Profit (loss) for the period	52.0	4.3	26.8	(3.9)
<i>Reclassifiable items of the comprehensive income statement</i>				
Reclassification of profit (loss) from translation of financial statements in foreign currencies	-	-	-	-
Gains (losses) on cash flow hedges	(0.9)	0.1	(0.7)	(0.1)
Reclassification of profit (loss) on cash flow hedges	1.0	0.2	2.8	0.8
Gains (losses) from the fair value measurement of available-for-sale financial assets	1.3	-	-	-
<i>Non-reclassifiable items of the comprehensive income statement</i>				
Actuarial profit (loss) from defined benefit plans	0.2	-	-	-
Tax effect	-	-	-	-
Total comprehensive income for the period	53.6	4.5	28.9	(3.3)
- Owners of the parent	32.4	1.9	18.3	(2.6)
- Non-controlling interests	21.2	2.6	10.6	(0.7)
	53.6	4.5	28.9	(3.3)

The Group's performance can be read better by analyzing the results in the first nine months and in third quarter 2018 by **main business segment** (magazine publishing Cairo Editore, advertising, TV publishing La7, network operator Cairo Network, Il Trovatore and RCS) versus those of 2017:



2018 (nine months) (€ millions)	Magazine publishing Cairo Editore	Advertising	TV publishing La7	Network operator (Cairo Network)	RCS	Trovatore	Intra and un allocated	Total
Gross operating revenue	84.1	123.7	71.5	8.5	747.1	0.6	(96.2)	939.4
Advertising agency discounts	-	(17.5)	-	-	(33.9)	-	0.2	(51.1)
Net operating revenue	84.1	106.3	71.5	8.5	713.3	0.6	(96.0)	888.3
Change in inventories	(0.0)	-	-	-	2.1	-	-	2.0
Other revenue and income	1.9	0.7	4.0	0.0	12.7	0.0	(1.1)	18.3
Total revenue	86.0	106.9	75.6	8.6	728.1	0.6	(97.0)	908.7
Production cost	(64.6)	(99.5)	(48.1)	(7.7)	(427.3)	(0.5)	97.0	(550.7)
Personnel expense	(14.5)	(6.5)	(26.3)	(0.1)	(194.3)	(0.1)	-	(241.8)
Income (expense) from equity-accounted investees	-	-	-	-	1.6	-	-	1.6
Non-recurring income (expense)	-	-	-	-	(0.1)	-	-	(0.1)
Gross operating profit (EBITDA)	6.9	0.9	1.1	0.8	108.0	0.1	-	117.7
Amortization, depreciation, provisions and impairment losses	(0.7)	(0.2)	(7.2)	(1.7)	(32.1)	0.0	-	(42.0)
EBIT	6.1	0.7	(6.1)	(0.9)	75.8	0.1	-	75.7
Income (loss) on investments	-	-	-	-	1.5	-	-	1.5
Net financial income	(0.0)	(0.4)	(0.1)	(0.0)	(13.7)	(0.0)	-	(14.2)
Profit (loss) before taxes	6.1	0.3	(6.2)	(0.9)	63.6	0.1	-	63.0
Income taxes	(1.1)	(0.3)	2.5	0.2	(12.4)	(0.0)	-	(11.1)
Non-controlling interests	-	-	-	-	(20.6)	(0.0)	-	(20.6)
Profit for the period attributable to the owners of the parent	5.0	0.0	(3.6)	(0.7)	30.6	0.0	-	31.2
Profit (loss) from discontinued operations	-	-	-	-	-	-	0.2	0.2
Profit for the period attributable to the owners of the parent	5.0	0.0	(3.6)	(0.7)	30.6	0.0	0.2	31.4
2017 (nine months) (€ millions)	Magazine publishing Cairo Editore	Advertising	TV publishing La7	Network operator (Cairo Network)	RCS	Trovatore	Intra and un allocated	Total
Gross operating revenue	68.1	120.5	69.1	5.9	690.5	0.7	(90.4)	864.4
Advertising agency discounts	-	(17.2)	-	-	(36.5)	-	0.1	(53.5)
Net operating revenue	68.1	103.4	69.1	5.9	654.0	0.7	(90.3)	810.8
Change in inventories	0.1	-	-	-	(0.4)	-	-	(0.3)
Other revenue and income	2.1	0.6	2.1	0.1	14.0	0.0	(0.6)	18.3
Total revenue	70.3	104.0	71.2	6.0	667.6	0.7	(90.9)	828.8
Production cost	(45.6)	(97.0)	(42.9)	(5.5)	(383.9)	(0.6)	90.9	(484.6)
Personnel expense	(14.6)	(6.4)	(25.7)	(0.1)	(192.3)	(0.0)	-	(239.1)
Income (expense) from equity-accounted investees	-	-	-	-	0.4	-	-	0.4
Non-recurring income (expense)	-	-	-	-	(0.9)	-	-	(0.9)
Gross operating profit (EBITDA)	10.1	0.6	2.5	0.4	91.0	0.1	-	104.7
Amortization, depreciation, provisions and impairment losses	(0.8)	(0.2)	(7.3)	(1.7)	(37.9)	0.0	-	(47.8)
EBIT	9.3	0.5	(4.8)	(1.3)	53.1	0.1	-	56.8
Income (loss) on investments	-	-	-	-	1.6	-	-	1.6
Net financial income	(0.0)	(0.3)	0.1	(0.0)	(18.9)	(0.0)	-	(19.2)
Profit (loss) before taxes	9.3	0.2	(4.7)	(1.3)	35.7	0.1	-	39.3
Income taxes	(2.7)	(0.6)	2.1	0.3	(11.5)	(0.0)	-	(12.5)
Non-controlling interests	-	-	-	-	(9.5)	(0.0)	-	(9.5)
Profit from continuing operations attributable to the owners of the parent	6.5	(0.4)	(2.5)	(1.0)	14.7	0.0	-	17.3
Profit (loss) from discontinued operations	-	-	-	-	-	-	-	-
Profit for the period attributable to the owners of the parent	6.5	(0.4)	(2.5)	(1.0)	14.7	0.0	-	17.3



2018 (three months)	Magazine publishing Cairo Editore	Advertising	TV publishing La7	Network operator (Cairo Network)	RCS	Trovatore	Intra and un allocated	Total
(€ millions)								
Gross operating revenue	30.3	31.9	17.6	2.5	217.9	0.2	(25.6)	274.8
Advertising agency discounts	-	(4.5)	-	-	(8.3)	-	0.1	(12.7)
Net operating revenue	30.3	27.4	17.6	2.5	209.7	0.2	(25.6)	262.1
Change in inventories	(0.0)	-	-	-	1.4	-	-	1.4
Other revenue and income	0.4	0.1	1.2	0.0	3.3	0.0	(0.2)	4.8
Total revenue	30.8	27.4	18.8	2.5	214.5	0.2	(25.8)	268.3
Production cost	(23.6)	(26.2)	(11.8)	(2.6)	(132.9)	(0.1)	25.8	(171.4)
Personnel expense	(4.5)	(2.3)	(8.0)	(0.0)	(61.4)	(0.0)	-	(76.3)
Income (expense) from equity-accounted investees	-	-	-	-	0.7	-	-	0.7
Non-recurring income (expense)	-	-	-	-	(0.1)	-	-	(0.1)
Gross operating profit (EBITDA)	2.7	(1.0)	(1.1)	(0.1)	20.7	0.0	-	21.1
Amortization, depreciation, provisions and impairment losses	(0.2)	(0.0)	(2.4)	(0.6)	(9.6)	0.0	-	(12.9)
EBIT	2.4	(1.1)	(3.4)	(0.6)	11.1	0.0	-	8.3
Income (loss) on investments	-	-	-	-	0.0	-	-	0.0
Net financial income	(0.0)	(0.1)	0.0	(0.0)	(3.1)	(0.0)	-	(3.3)
Profit (loss) before taxes	2.4	(1.2)	(3.4)	(0.6)	7.9	0.0	-	5.1
Income taxes	(0.7)	0.3	1.1	0.1	(1.5)	(0.0)	-	(0.8)
Non-controlling interests	-	-	-	-	(2.5)	(0.0)	-	(2.5)
Profit for the period attributable to the owners of the parent	1.7	(0.9)	(2.4)	(0.5)	3.9	0.0	-	1.8
Profit (loss) from discontinued operations	-	-	-	-	-	-	-	-
Profit for the period attributable to the owners of the parent	1.7	(0.9)	(2.4)	(0.5)	3.9	0.0	-	1.8
2017 (three months)	Magazine publishing Cairo Editore	Advertising	TV publishing La7	Network operator (Cairo Network)	RCS	Trovatore	Intra and un allocated	Total
(€ millions)								
Gross operating revenue	24.4	29.7	16.2	2.0	194.6	0.2	(23.7)	243.4
Advertising agency discounts	-	(4.2)	-	-	(9.8)	-	0.1	(14.0)
Net operating revenue	24.4	25.4	16.2	2.0	184.8	0.2	(23.6)	229.4
Change in inventories	0.1	-	-	-	(0.2)	-	-	(0.1)
Other revenue and income	0.5	0.4	1.5	0.0	3.9	0.0	(0.3)	6.0
Total revenue	25.0	25.8	17.7	2.0	188.5	0.2	(24.0)	235.3
Production cost	(16.4)	(24.5)	(11.7)	(1.9)	(109.7)	(0.1)	24.0	(140.3)
Personnel expense	(4.6)	(2.3)	(7.2)	(0.0)	(60.6)	(0.0)	-	(74.7)
Income (expense) from equity-accounted investees	-	-	-	-	-	-	-	-
Non-recurring income (expense)	-	-	-	-	(0.9)	-	-	(0.9)
Gross operating profit (EBITDA)	4.0	(1.0)	(1.2)	0.1	17.4	0.1	-	19.4
Amortization, depreciation, provisions and impairment losses	(0.3)	(0.0)	(2.7)	(0.6)	(12.2)	0.0	-	(15.8)
EBIT	3.8	(1.1)	(3.9)	(0.4)	5.2	0.1	-	3.6
Income (loss) on investments	-	-	-	-	0.4	-	-	0.4
Net financial income	(0.0)	(0.2)	0.0	(0.0)	(5.9)	(0.0)	-	(6.1)
Profit (loss) before taxes	3.8	(1.3)	(3.8)	(0.5)	(0.4)	0.1	-	(2.1)
Income taxes	(1.2)	0.3	1.4	0.1	(2.4)	(0.0)	-	(1.8)
Non-controlling interests	-	-	-	-	1.3	(0.0)	-	1.3
Profit from continuing operations attributable to the owners of the parent	2.6	(1.0)	(2.4)	(0.3)	(1.5)	0.1	-	(2.6)
Profit (loss) from discontinued operations	-	-	-	-	-	-	-	-
Profit for the period attributable to the owners of the parent	2.6	(1.0)	(2.4)	(0.3)	(1.5)	0.1	-	(2.6)



The main consolidated **statement of financial position** figures at 30 September 2018 can be compared as follows with those at 31 December 2017:

(€ millions)	30/09/2018	31/12/2017
Statement of financial position		
Property, plant and equipment	91.5	97.7
Intangible assets	993.4	1,008.2
Financial assets	64.4	65.0
Deferred tax assets	107.5	113.3
Net working capital	(80.8)	(87.1)
Total assets	1,176.0	1,197.1
Non-current borrowings and provisions	112.5	121.9
Deferred tax provision	170.9	169.7
(Net financial position)/Net debt	211.2	263.1
Equity attributable to the owners of the parent	409.9	391.6
Equity attributable to non-controlling interests	271.5	250.8
Total equity and liabilities	1,176.0	1,197.1

Mention should be made that, at their Meeting on 27 April 2018, the shareholders approved the distribution of a dividend of Euro 0.10 per share, gross of taxes, with coupon detachment date on 14 May 2018.

In 2018, as part of the share buy-back plans, no treasury shares were sold or purchased. At 30 September 2018, 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 30 September 2018, versus the situation at 31 December 2017, can be summarized as follows:



Net financial debt (€ millions)	30/09/2018	31/12/2017	Changes
Cash and cash equivalents	98.4	128.1	(29.8)
Other current financial assets and financial receivables	1.9	0.9	1.0
Current financial assets (liabilities) from derivative instruments	-	(1.0)	1.0
Current financial payables	(52.3)	(72.0)	19.7
Current net financial position (net financial debt)	48.0	56.0	(8.1)
Non-current financial payables	(258.6)	(319.0)	60.4
Non-current financial assets (liabilities) from derivative instruments	(0.6)	(0.1)	(0.5)
Non-current net financial position (net financial debt)	(259.2)	(319.1)	60.0
Net financial position (Net financial debt) from continuing operations	(211.2)	(263.1)	51.9

At 30 September 2018, the net financial debt of RCS came to Euro 215.9 million (Euro 287.4 million at 31 December 2017).

The improvement in the net financial debt versus 31 December 2017 of Euro 51.9 million is attributable mainly to cash flows from ordinary operations, comprising the dynamics of current assets, offset by the distribution of dividends approved by the Shareholders' Meeting held on 27 April 2018 for a total of Euro 13.4 million, and by outlays for capital expenditure and net non-recurring expense.

On 10 October, RCS signed the Amending Agreement to the existing Loan Agreement with the Pool of Banks, whose main terms are: (i) a 12-month extension of the duration of the loan, with a resulting postponement of the final maturity date from 31 December 2022 to 31 December 2023 and (ii) a reduction in the spread applied to both credit facilities as from 10 October 2018, and subsequently recalculated from time to time using a margin grid, based on the leverage ratio (debt/EBITDA), which is more favourable than the one envisaged in the existing loan agreement.

4. Revenue

Gross operating revenue in the first nine months and in third quarter 2018, split up by main business segment, can be analyzed as follows versus the amounts of the corresponding periods of 2017:



2018 (9 months)	Magazine publishing Cairo Ed.	Advertising	TV publishing La7	Network operator	RCS	Trovatore	Intra and un allocated	Total
(€ millions)								
TV advertising	-	101.4	68.7	-	1.3	-	(71.0)	100.5
Advertising on print media, Internet and sporting events	14.1	21.8	1.0	-	313.5	-	(14.8)	335.7
Other TV revenue	-	-	1.8	-	6.0	-	(0.1)	7.6
Magazine over-the-counter sales and subscriptions	71.1	-	-	-	330.6	-	(0.2)	401.5
VAT relating to publications	(1.2)	-	-	-	(3.9)	-	-	(5.1)
Other revenue	-	0.5	-	8.5	99.7	0.6	(10.1)	99.2
Total gross operating revenue	84.1	123.7	71.5	8.5	747.1	0.6	(96.2)	939.4
Other revenue	1.9	0.7	4.0	0.0	12.7	0.0	(1.1)	18.3
Total gross revenue	86.0	124.4	75.6	8.6	759.9	0.6	(97.3)	957.7
2017 (9 months)	Magazine publishing Cairo Ed.	Advertising	TV publishing La7	Network operator	RCS	Trovatore	Intra and un allocated	Total
(€ millions)								
TV advertising	-	98.5	66.7	-	2.0	-	(67.7)	99.5
Advertising on print media, Internet and sporting events	14.7	21.5	1.2	-	318.9	-	(15.5)	340.8
Other TV revenue	-	-	1.2	-	6.8	-	-	8.0
Magazine over-the-counter sales and subscriptions	54.5	-	-	-	263.3	-	(0.2)	317.6
VAT relating to publications	(1.1)	-	-	-	(3.7)	-	-	(4.8)
Other revenue	-	0.5	-	5.9	103.2	0.7	(7.0)	103.3
Total gross operating revenue	68.1	120.5	69.1	5.9	690.5	0.7	(90.4)	864.4
Other revenue	2.1	0.6	2.1	0.1	14.0	0.0	(0.6)	18.3
Total gross revenue	70.2	121.1	71.2	6.0	704.5	0.7	(91.0)	882.7
2018 (3 months)	Magazine publishing Cairo Ed.	Advertising	TV publishing La7	Network operator	RCS	Trovatore	Intra and un allocated	Total
(€ millions)								
TV advertising	-	25.1	16.7	-	0.1	-	(17.4)	24.6
Advertising on print media, Internet and sporting events	4.6	6.6	0.3	-	83.0	-	(4.7)	89.8
Other TV revenue	-	-	0.6	-	2.0	-	(0.1)	2.5
Magazine over-the-counter sales and subscriptions	26.3	-	-	-	115.5	-	(0.1)	141.7
VAT relating to publications	(0.5)	-	-	-	(1.4)	-	-	(1.9)
Other revenue	-	0.2	-	2.5	18.7	0.2	(3.4)	18.2
Total gross operating revenue	30.3	31.9	17.6	2.5	217.9	0.2	(25.6)	274.8
Other revenue	0.4	0.1	1.2	0.0	3.3	0.0	(0.2)	4.8
Total gross revenue	30.8	31.9	18.8	2.5	221.3	0.2	(25.9)	279.6
2017 (3 months)	Magazine publishing Cairo Ed.	Advertising	TV publishing La7	Network operator	RCS	Trovatore	Intra and un allocated	Total
(€ millions)								
TV advertising	-	22.8	15.4	-	0.5	-	(15.9)	22.8
Advertising on print media, Internet and sporting events	5.0	6.7	0.5	-	81.3	-	(5.5)	88.0
Other TV revenue	-	-	0.3	-	2.0	-	-	2.3
Magazine over-the-counter sales and subscriptions	19.9	-	-	-	90.5	-	(0.1)	110.3
VAT relating to publications	(0.5)	-	-	-	(1.2)	-	-	(1.7)
Other revenue	-	0.2	-	2.0	21.6	0.2	(2.3)	21.7
Total gross operating revenue	24.4	29.7	16.2	2.0	194.6	0.2	(23.7)	243.4
Other revenue	0.5	0.4	1.5	0.0	3.9	0.0	(0.3)	6.0
Total gross revenue	24.9	30.1	17.7	2.0	198.6	0.2	(24.1)	249.4

Mention should be made that, effective from 1 January 2018, the Group adopted IFRS 15 - *Revenues from contracts with customers*, which resulted in a different presentation of costs and



revenue, as a result of the valuation of the principal/agent role, with no impact on the result for the period or on equity at 1 January 2018.

This new standard was adopted using the cumulative effect approach and, therefore, not applying its provisions to the period shown for comparative purposes.

As a result, revenue in the first nine months of 2018 cannot be directly compared with revenue in the same period of 2017. The application of IFRS 15 resulted in: (i) an increase in net revenue of Euro 80.3 million and in (ii) a corresponding increase in costs for the consumption of raw materials, consumables and supplies (Euro 14.5 million) and services (Euro 65.8 million).

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*” and the fortnightly “*Diva e Donna Cucina*”, “*TV Mia*”, “*Settimanale Nuovo*”, “*F*”, “*Settimanale Giallo*” and “*NuovoTV*”, “*Nuovo e Nuovo TV Cucina*”, “*Enigmistica Più*” and “*Enigmistica Mia*”, (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*”.

In the first nine months of 2018, Cairo Editore 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 6.9 million and approximately Euro 6.1 million (Euro 10.1 million and Euro 9.3 million in the first nine months of 2017) and were impacted by the launch costs of approximately Euro 0.5 million for “*Enigmistica Mia*”.

Mention should be made that if the new IFRS 15, which came into force as from 1 January 2018, had not been applied, consolidated gross operating revenue of the Cairo Editore magazine publishing segment in the first nine months of 2018 would have amounted to Euro 65 million instead of Euro 84.1 million.

In June, Cairo Editore launched “*Diva e Donna Cucina*”, a new magazine sold optionally with “*Diva e Donna*” that features cooking, recipes and food personalities, placing emphasis on health and wellness in the kitchen. “*Diva e Donna Cucina*” is fortnightly. The first 9 issues, of which



the first two free with the mother publication, posted estimated average sales of approximately 103 thousand copies (Internal source).

In July, Cairo Editore launched "*Enigmistica Mia*", a new weekly packed with puzzles, games and pastimes that debuted on newsstands at the launch price of 50 cents, which complements "*Enigmistica Più*" on newsstands from April 2016. The first 11 issues posted estimated average sales of approximately 72 thousand copies (Internal source).

The Group weeklies reported high circulation results, with an average ADS weekly circulation in the January-September period of 2018 of 439,142 copies for "*Settimanale DIPIU*", 221,053 copies for "*DIPIU' TV*", 92,223 copies for "*Settimanale DIPIU' e DIPIU'TV Cucina*", 180,237 copies for "*Diva e Donna*", 216,372 copies for "*Settimanale Nuovo*", 115,323 copies for "*F*", 96,145 copies for "*TVMia*", 77,565 copies for "*Settimanale Giallo*", 92,384 copies for "*NuovoTV*" and 48,384 copies for "*Nuovo e Nuovo TV Cucina*", reaching a total of approximately 1.6 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*" and "*Enigmistica Mia*"), average weekly copies sold were approximately 1.7 million.

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 2018 Cairo Communication 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.



In the first nine months of 2018, gross advertising sales on La7 and La7d channels amounted to Euro 99.8 million (Euro 96.2 million in 2017). Advertising sales on Cairo Editore titles amounted to Euro 18.3 million (Euro 18.9 million in 2017).

Gross operating profit (EBITDA) and operating profit (EBIT) in the advertising segment came to Euro 0.9 million and Euro 0.7 million (Euro 0.6 million and Euro 0.5 million in 2017).

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.

In the first nine months of 2018, the TV publishing segment (La7) achieved gross operating profit (EBITDA) of approximately Euro 1.1 million (Euro 2.5 million in 2017). The result in the period under review was impacted also by increased programming costs of approximately Euro 3 million to improve programming quality, which contributed to the growth of La7's all-day share by 29.6% and by 41.2% in prime time. There is usually a certain time gap between audience trends and advertising sales results. In third quarter 2018, total advertising sales of La7 and La7d, in fact, accelerated their growth trend (+11% with September over +13%); based on the order book at 13 November, sales from advertising aired and to be aired on the two channels in October and November 2018, amounting to Euro 31.8 million, already increased by over 13% versus the same two-month period of 2017 (Euro 28 million). Based on the above results, growth is expected to be stronger than the target for advertising on the two channels in the last four months of 2018 (+10%) announced on approval of the 2018 Half-Year Report.

Operating profit (EBIT) came to approximately Euro -6.1 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 1.3 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



2017, operating profit (EBIT) had come to Euro -4.8 million, benefiting in the consolidated financial statements from lower amortization and depreciation of Euro 2.4 million.

In the first nine months of 2018, La7's average all-day share was 3.68%, up by 29.6% versus the same period of 2017, and 4.87% in prime time (from 8:30 PM to 10:30 PM), rising sharply by 41.2% versus 2017, with a high-quality target audience. La7d's share was 0.52% (0.41% in prime time). The channel's news and discussion programmes all continued to show remarkable and increasingly strong audience figures: *Otto e Mezzo* with a 6.9% average share (+19% versus 2017), *TgLa7 edizione delle 20* 5.8% from Monday to Friday(+6.9% versus 2017), *diMartedì* 7.8% (+62.9% versus 2017), *Piazzapulita* 6% (+50.9% versus 2017), *Propaganda Live* 4.4%, *Non è l'Arena* 7.2%, *Omnibus Dibattito* 4.6% (+24.4% versus 2017), *Coffee Break* 4.9% (+26.3% versus 2017), *L'Aria che tira* 6.9%(+31.3% versus 2017), *Tagadà* 3.7% (+49.4% versus 2017), *In Onda* 5,1%(+24.8% versus 2017), the *Maratone Mentana* (14.27% share on 4 March) and the election specials.

In the first nine months of the year, La7 was the sixth national channel for average prime time audience; specifically, in March and April, it was the sixth also in all-day, in May the fifth in all-day and third in prime time; in the second fortnight of September, at the restart of programmes, it was fifth in prime time. The remarkable audience results were repeated in October (+40% in all-day and +48% in prime time; these results made La7 respectively the sixth and fifth national channel in the two slots). Specifically, in October 2018, with a 7.14% share, La7 was the third channel on the top 30% of the population for spending capacity (new ranking Auditel CSE 3.0), a highly coveted audience in terms of advertising.

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.

RCS

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* and *Marca Motor*.

RCS is also marginally active in the Pay TV market in Italy, through its subsidiary, Digicast S.p.A., with the satellite TV channels *Lei*, *Dove*, *Caccia e Pesca* and also publishes the web TVs 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 (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 generated negative results prior to 2016, and has embarked on an operational restructuring process to restore profitability. In 2016, profit had amounted to Euro 3.5 million⁴, marking a return to positive territory by the RCS Group (the first time since 2010), while in 2017 it had amounted to Euro 71.1 million⁴

In the first nine months of 2018, 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 108 million⁵ and operating profit (EBIT) of Euro 75.8 million, up strongly by Euro 17 million and Euro 22.7 million, respectively, versus 2017, in line with 2018 performance targets, thanks mainly to the strong commitment towards cutting costs and pursuing opportunities to increase and develop revenue.

In the first nine months of 2018, net consolidated revenue generated by RCS amounted to approximately Euro 713.3 million, up by an overall Euro 55.6 million versus 2017. Excluding

⁴ RCS 2017 Annual Report

⁵ 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 Measures". As a result of these differences, which lie in the provisions for risks and in the allowance for impairment, amounting to Euro 6.2 million in the nine months - EBITDA shown in the RCS Interim Management Statement at 30 September 2018, approved on 9 November 2018, amounted to Euro 101.8 million



from the comparison with the figures in the first nine months of 2017 the effects arising from the adoption of the new IFRS 15 (Euro +61.2 million), RCS total revenue would be basically steady. Specifically, digital revenue, amounting to approximately Euro 112.2 million, was up by approximately +15.9% versus the same period of 2017. Mention should also be made of the highly positive trend in digital advertising sales, amounting in the nine months to approximately Euro 86 million, up by 18.1% versus the same period of the prior year.

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

In Italy, in the first nine months of 2018, *Corriere della Sera* recorded an average of 290 thousand copies distributed, including average digital copies (Internal Source), while *La Gazzetta dello Sport* recorded an average of 173 thousand copies distributed, including average digital copies (Internal Source). The circulation of the *Corriere della Sera* and *La Gazzetta dello Sport* publications at newsstands (channels provided for by law) was down by -2.5% and -6.4% respectively versus the first nine months of 2017, while the relevant market fell by -7.5% and -10.8% respectively (*ADS January-September 2018*).

The main digital performance indicators show that in the first nine months of 2018, average unique browsers/month of *corriere.it* reached 49.5 million (+6.7% versus the same period of 2017); its mobile version, *Corriere Mobile*, recorded 30.3 million average unique browsers/month (+24.4% versus the same period of 2017) (*Adobe Analytics*). In September 2018, the site reached 2.5 million average unique users/day (*Audiweb 2.0*). In September, the total active customer base for *Corriere* was 133 thousand subscribers.

Gazzetta.it recorded 35.8 million average unique browsers/month (+25.8% versus the same period of 2017), and *Gazzetta Mobile* reached 23.6 million average unique browsers/month (+62.2% versus the same period of 2017) (*Adobe Analytics*). In September 2018, the site reached 1.8 million average unique users/day (*Audiweb 2.0*).

The average daily circulation of *El Mundo* and *Expansión* (including digital copies) in the first nine months of 2018 amounted to 112 thousand and 35 thousand copies, respectively; copies of the sports daily *Marca* amounted to approximately 122 thousand, including digital copies (Internal source).

On the web front, average unique browsers/month (*Omniure*) of *elmundo.es* were 55 million in the first nine months of 2018 (+16% versus the same period of 2017). At end September 2018, *marca.com* reached 58 million average unique browsers/month (+31.2% versus the same period



of 2017). The new *Marca Claro* portal, launched in 2018 also in Colombia in January and then in Argentina, posted a strong growth in average unique users/month of traffic in Latin America (+59%). Average unique browsers/month of *expansión.com* in the first nine months of 2018 reached an average of 9.9 million unique users (-3.9% versus the same period of 2017). All three sites reported a sharp rise in accesses through mobile devices, which saw significant increases.

At 30 September 2018, the net financial position of RCS stood at Euro -215.9 million, improving by approximately Euro 71.5 million versus 31 December 2017, thanks mainly to the positive cash flows of Euro 85.7 million from ordinary operations, only partly offset by outlays for investments and net non-recurring expense (Management Reporting).

On 10 October, RCS signed the Amending Agreement to the existing Loan Agreement with the Pool of Banks, whose main terms are: (i) a 12-month extension of the duration of the loan, with a resulting postponement of the final maturity date from 31 December 2022 to 31 December 2023 and (ii) a reduction in the spread applied to both credit facilities as from 10 October 2018, and subsequently recalculated from time to time using a margin grid, based on the leverage ratio (debt/EBITDA), which is more favourable than the one envisaged in the existing loan agreement. 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.

In Italy, with regard to *Corriere della Sera*:

- 23 February 2018 saw the launch of *Corriere Innovazione*, the new magazine that explores the varied facets of innovation, touching science, technology, culture, research and development, offering different perspectives in the digital and paper domains and a generous calendar of local-based dedicated events;
- 19 April 2018 saw the launch of *Solferino - I Libri del Corriere della Sera*, which deals with fiction, non-fiction, poetry and children's books, both Italian and foreign;
- 18 May 2018 saw the launch of *Liberi Tutti*, the new free weekly supplement of *Corriere della Sera*, dedicated to the pleasure of living. The Friday issue complements the offer of the six *Corriere della Sera* supplements out at newsstands on the remaining days of the week;
- July 2018 saw the revamping of *laLetture*, *Corriere della Sera*'s cultural supplement, now richer, with up to 64 pages as well as new room for fiction and a section on science;



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- 19 September 2018 saw the unveiling of *COOK*, *Corriere della Sera*'s new monthly insert on the world of cooking and food, which covers these topics in an unprecedented way, through original pictures, photo reports and superb storytellers;
 - September 2018 also saw the content revamping of women's weekly *Io Donna*, out now with a larger size and better paper to add greater value to images and graphics.

Lastly, mention should be made of the launch in September of *Style Dresscode*, the new half-yearly magazine dedicated to the fashion trends of the season.

Events organized in the third quarter to support *Corriere della Sera* included *il Tempo delle Donne*, the happening/festival held in Milan, now at its fifth edition. The initiative presented over 100 events with a generous lineup of shows, meetings, surveys, workshops, interviews, performances and installations.

As for *La Gazzetta dello Sport*, in the first nine months of 2018:

- it continued to expand by increasing its sections and shining a daily spotlight on *Torino*, *Cagliari* and *Genova*, offering more in-depth information to the football teams and their fans;
- in-depth theme supplements continued to be published, including those dedicated to the *2018 Winter Olympics* and the *F1 World Championship*. In second quarter 2018, in-depth theme supplements were published (*GMagazine* and *Grande Gazzetta*) on major sporting events, including the *101° Giro d'Italia*, the *World Football Cup*, the *Tim Cup*, on *Golf*, and on the *Luna Rossa* challenge and major regattas.
- the information offer has stretched to the *gazzetta.it* site with two new sections, one on Nutrition, the other on Virtual Sports through the *Esports* section, proof of the publication's ongoing focus on news and issues that appeal to its readers and users, with a significant editorial and organizational investment;
- mention should be made of the new inserts *Gazza Mondo* on international football, on newsstands free of charge on Tuesdays, and *Time Out*, offering free weekly insights into the Italian basketball championship, on newsstands on Wednesdays;
- and starting from 1 July, published on Sundays, the new free Sunday weekly *Fuorigioco* bundled with the newspaper. The weekly, which covers the sports world, its legends and celebrities, was supposed to be released for the summer months only, but continues to be published thanks to the enthusiastic response from readers.

In Spain:



- starting from 23 February 2018, *Su Vivienda* was revamped; the supplement is a trusted source for the real-estate market, out on Fridays along with the local Madrid edition of *El Mundo*.
- starting from 5 March 2018, *El Mundo* comes every week with the sale of the supplement *Actualidad Economica*, the main business-economic periodical title of the Unidad Editorial group.
- starting from 19 April 2018, *Marca Motor* has revamped its format to meet new market needs, by investing in innovation through a new design that is fresher, tidier and more dynamic, seeking a more modern look;
- following the launch of the new *MarcaClaro* portal in Mexico in 2017, mention should be made in January 2018 of the launch of the *MarcaClaro* portal in Colombia and, from 14 June, also in Argentina, which provides 45 million Argentinians with information on sporting events, local tournaments and competitions, as well as a number of international events;
- starting from 2 July 2018, the *diariomedico.com* and *correofarmaceutico.com* sites feature a fresher look. The restyling was made to reorganize information and adapt it to the needs of health professionals, making it faster and friendlier to use;
- July also saw the launch of *Masterpasatiempos*, a new crossword magazine for the Spanish market, featuring an innovative format enhanced by the presence of comic strips.

Mention should also be made of the debut at newsstands from 3 October 2018 of the revamped *ViviMilano* the *Corriere della Sera* weekly dedicated to the city of Milan. The restyling adds greater appeal and readability to the weekly, making it, once again, the premier source for the populations in and outside the Milan metropolis.

From 11 to 14 October, under the patronage of the Italian Olympic Committee and the Italian Paralympic Committee, RCS and Regione Trentino organized in Trento *Il Festival dello Sport*, staging over 100 events in 15 different locations and drawing more than 50 thousand people.

NETWORK OPERATOR (CAIRO NETWORK)

The Group company Cairo Network 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. 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. 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.

The 2017 Annual Report and the Half-Year Report at 30 June 2018 contain a detailed description of the current developments in the legislative and regulatory framework regarding the rights to use television frequencies, following the provisions of the 2018 Budget Law, and of Cairo Network's distinctive position against this backdrop.

IL TROVATORE

In 2018, Il Trovatore continued operations, mainly providing technological services to develop and maintain the online platforms of the Group's companies.

5. Transactions with parents, subsidiaries and associates

The following are identified as related parties:

- the direct and indirect parent entities of Cairo Communication S.p.A., and their subsidiaries, the direct and indirect controlled entities of Cairo Communication (whose transactions are derecognized in the consolidation process), the associates and affiliates of the Group. The Ultimate Parent of the Group is U.T. Communications S.p.A.;
- directors, statutory auditors, key management personnel and their close relations.

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	23.3	-	1.0
Other affiliates	0.9	-	-
Other related parties	0.5	-	-
Total	24.7	0.9	1.0

Payables and financial liabilities (€ millions)	Trade and other payables	Other current financial liabilities	Other non-current financial liabilities
Parents	-	-	-
Associates	9.1	0.8	-
Other affiliates	4.9	-	-
Other related parties	-	-	-
Total	14.0	0.8	-

Revenue and costs (€ millions)	Operating revenue	Operating costs	Financial expense
Parents	-	-	-
Associates	216.2	(80.9)	-
Other affiliates	0.6	(2.5)	-
Other related parties	1.2	(0.3)	-
Total	218.0	(83.7)	-

Transactions with associates refer mainly to:

- m-dis Distribuzione Media S.p.A. and its subsidiaries, which operate in Italy as distributors in the newsstand channel for the RCS Group, in respect of which Group companies generated in the first nine months of 2018 revenue of Euro 214.9 million and incurred costs of Euro 66.9 million, and hold trade receivables of Euro 23.3 million, trade payables of Euro 2.1 million, financial receivables of Euro 1 million and current financial payables of Euro 0.8 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 1.3 million and incurred costs of Euro 13.7 million in the first nine months of 2018, and hold trade payables of Euro 7 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 the first nine months of 2018 of Euro 2.3 million to the concession holder against revenue of Euro 2.9 million net of agency discounts. Cairo Pubblicità earned further commissions of Euro 58 thousand;
- the agreement between Cairo Communication S.p.A. and Torino F.C. for the provision of administrative services such as bookkeeping, which provides for an annual consideration of Euro 0.1 million.

Transactions with “other related parties” refer mainly to commercial dealings with the Della Valle and Pirelli groups, in respect of which Group companies generated revenue of Euro 1.2 million. Trade receivables amounted to Euro 0.5 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 the first nine months of 2018, 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 2.1 million.

In the first nine months of 2018, the RCS Group paid Directors, Statutory Auditors and Key Management Personnel fees totaling Euro 5.9 million.

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.

The procedures adopted by the Group for related party transactions, to ensure transparency and substantial and procedural fairness, implemented by the Group, are explained in the 2017 “Report on Corporate Governance and Ownership Structure”.



6. Events occurring after the quarter and business outlook

Against a persistently uncertain backdrop, in the first nine months of 2018:

- RCS continued its relaunch, with margins growing strongly versus the same period of the prior year, in line with the 2018 performance targets, thanks to the initiatives implemented to maintain and develop revenue and to the ongoing efficiency actions;
- the TV publishing segment La7 reported a sharp increase in La7's audience (+29.6% in all-day share and +41.2% in prime time). The remarkable audience results were repeated in October (+40% in all-day and +48% in prime time; these results made La7 respectively the sixth and fifth national channel in the two slots). There is usually a certain time gap between audience trends and advertising sales results. In third quarter 2018, total advertising sales of La7 and La7d accelerated their growth trend (+11%, with September over 13%); based on the order book at 13 November, sales from advertising aired and to be aired on the two channels in October and November, amounting to Euro 31.8 million, already increased by over 13% versus the same two-month period of 2017 (Euro 28 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, continuing for Cairo Editore 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) in 2018 too, thanks also to a double-digit growth in advertising sales in the second half of the year.

As for RCS, on the approval of the Interim Management Statement at 30 September 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, and of the positive results achieved in the first nine months of the year, in the absence of events unforeseeable at this time, RCS confirms it can achieve a growth in 2018 in gross operating profit and in cash flows from current operations versus 2017, which would allow it to reduce financial debt below Euro 200 million at end 2018.

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



Declaration, pursuant to art 154-bis paragraph 2 of Legislative Decree no. 58 of 24 February 1998 (T.U.F.)

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

Financial Reporting Manager
Marco Pompignoli