Interim Management Report
at 31 March 2014

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

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

Governance

Board of Directors

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

Control and Risk Committee

Roberto Rezzonico	Director
Antonio Magnocavallo	Director
Mauro Sala	Director

Remuneration Committee

Antonio Magnocavallo	Director
Roberto Rezzonico	Director
Stefania Petruccioli	Director

Related Party Committee

Marco Janni	Director
Mauro Sala	Director
Stefania Petruccioli	Director

Board of Statutory Auditors

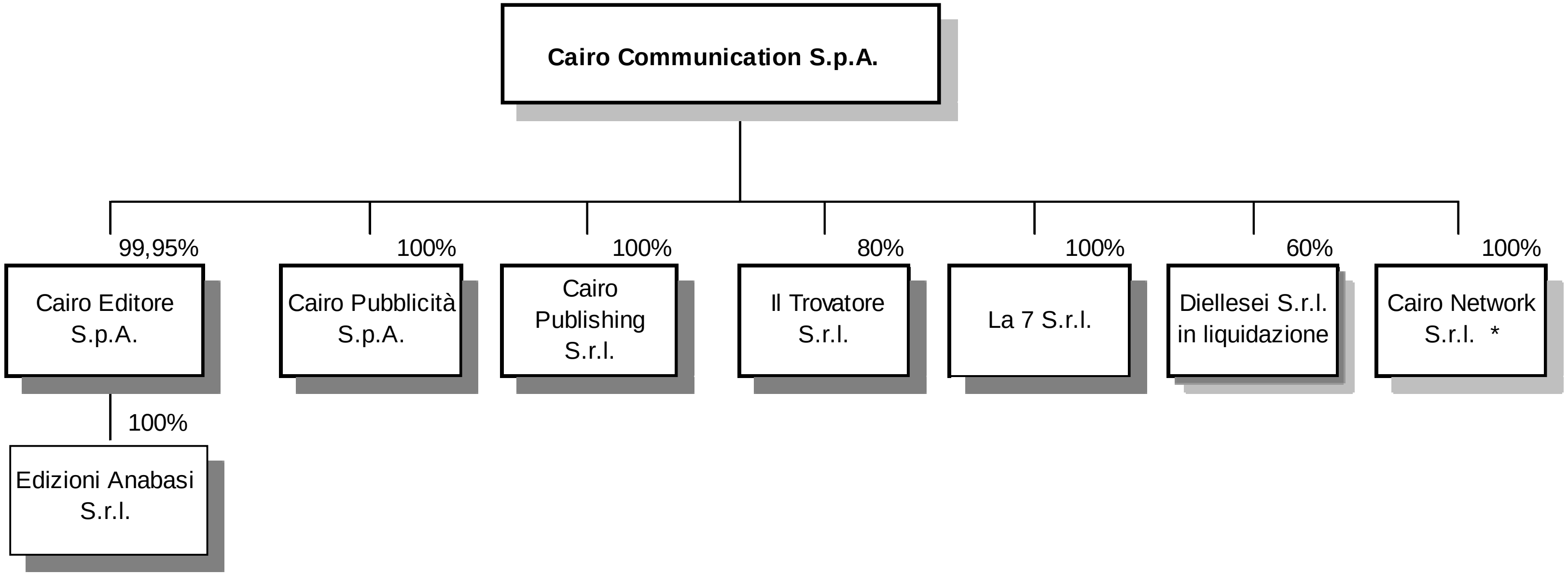
Marco Moroni	Chairman
Marco Giuliani	Standing auditor
Maria Pia Maspes	Standing auditor
Emilio Fano	Alternate auditor
Enrico Tamborini	Alternate auditor

Audit Firm

KPMG S.p.A.

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

The Group at 31 March 2014



* Effective 1 April 2014, Cairo Sport S.r.l. changed its name into Cairo Network S.r.l.

1. Valuation principles and criteria adopted in preparing the Interim Management Report at 31 March 2014

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

The consolidated and separate income statement figures in 1Q14 are shown versus 1Q13. Statement of financial position and net equity figures appearing in the financial statements are compared with the figures of the consolidated and separate financial statements at 31 December 2013.

The quarterly financial statements at 31 March 2014 have been prepared net of tax and tax effects.

During the period under review, the consolidation scope remained unchanged versus the situation at 31 December 2013.

To provide a better understanding of the figures in terms of comparison, it should be noted that the 1Q13 income statement does not include the results of La7 S.r.l., which entered the Group’s consolidation scope on 1 May 2013.

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

The alternative indicators are:

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

Profit from continuing operations, pre tax

+/- Net finance income

+/- Share in associates

EBIT- Operating profit

+ Amortization & depreciation

+ Bad debt impairment losses

+ Provisions for risks

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

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

2. Group performance

In 1Q14, the Cairo Communication Group, which started operations in the TV publishing field in 2013 following the acquisition of La7, with the upstream integration of its concessionaire business for the sale of advertising space, diversifying its publishing activities previously focused on magazines – continued to operate as a:

- publisher of magazines and books (Cairo Editore/Editoriale Giorgio Mondadori and Cairo Publishing);
- multimedia advertising broker (Cairo Pubblicità) for the sale of advertising space on TV, in print media, on the Internet and in stadiums;
- TV (La7, La7d) and Internet (La7.it, La7.tv, TG.La7.it) publisher.

During the quarter under review, the general economic and financial climate, marked by a high degree of uncertainty, continued to show its negative effects. To date, there remains uncertainty over the period required for a return to normal market conditions.

Based on the latest AC Nielsen figures available at the date of approval of this report (February 2014), advertising investments in Italy in the January-February two-month period of 2014 amounted to approximately Euro 0.9 billion, down 4.3% versus 1Q13.

The analysis by media shows that in the January-February two-month period of 2014:

- the magazine advertising market dropped by 14.7% versus 2013, when it had decreased by 21.6% in the same period versus 2012,
- the TV advertising market rose by 0.2% versus 2013, when it had lost 16.1% in the same period versus 2012.

The uncertainty factors in the short-medium economic term also hit magazine sales figures.

Despite this backdrop, in 1Q14 the Cairo Communication Group:

- strengthened the results of the cost rationalization measures in the TV publishing segment (La7) implemented during the eight months of activity in 2013, and continued to pursue a turnaround, succeeding in achieving a positive gross operating profit (EBITDA) of Euro 0.8 million also in 1Q14, versus the gross operating loss of Euro 15.8 million of La7 in 1Q13;
- strengthened the results of "F", "Settimanale Nuovo" and "Settimanale Giallo", confirmed the high circulation levels of the other publications, and worked on improving the levels of efficiency reached in containing costs in the magazine publishing segment (production, publishing and distribution);
- kept advertising revenue levels high, despite the general market trend;
- achieved highly positive results in its traditional segments (magazine publishing and advertising), despite the general economic and financial climate and relevant markets trend.

In 1Q14, consolidated gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 5.8 million and Euro 4.7 million (Euro 5.8 million and Euro 5 million in 1Q13). Profit attributable to the owners of the parent came to approximately Euro 4.9 million (Euro 3.8 million in 1Q13).

Specifically:

- in the **TV publishing segment (La7)**, the Group continued to implement its own plan to restructure La7, with the aim of achieving a turnaround. Gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro 0.8 million and Euro 0.3 million, while La7 operations did not essentially absorb cash (positive net financial position of Euro 114.1 million at 31 March 2014). Operating profit (EBIT) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 7.6 million, due to the write-down of tangible and intangible assets made in the purchase price allocation of the investment. Net of these effects, it would have shown a negative figure of approximately Euro 7.3 million. In 1Q13 - when La7 had not been included yet in the scope of consolidation of the Cairo Communication Group - gross operating loss and operating loss had amounted to approximately Euro 15.8 million and Euro 24.5 million. In 1Q14, La7's average all-day share was 3.60% and 4.21% in prime time (from 8:30 PM to 11:30 PM), with a high-quality target audience. La7d's share grew by 0.51%. The results of the channel's news and discussion programmes - such as the 8 PM newscast (6.3%), "Otto e mezzo" (5.8%), "Piazza Pulita" (5.1%), "Crozza nel Paese delle Meraviglie" (9.1%) "Servizio Pubblico" (8.7%), "Le invasioni Barbariche" (4.3%), "Coffee Break" (5.6%),"Omnibus" (4.4%), "La Gabbia" (3.7%) and "L'aria che tira" (6.5%) – were highly positive;

- in the **magazine publishing segment**, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 2.4 million and Euro 2.1 million (Euro 2.3 million and Euro 2 million in 1Q13). During the quarter, circulation results were basically in line (-1.6%) with the same period of 2013. Regarding weeklies, with over 1.8 million average copies sold in February 2014, the Group retains its position as the leading publisher in copies of weeklies sold at newsstands, with an over 25% market share;
- in the **advertising segment**, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 2.6 million and Euro 2.2 million (Euro 3.5 million and Euro 3 million in 1Q13). Starting from the second half of 2013, TV advertising revenue began picking up pace. In 4Q13 in particular, advertising sales on La7 and La7d had grown by approximately 6.5% versus 4Q12. In 1Q14, advertising sales on La7 and La7d, amounting to Euro 40.1 million, confirmed the positive trend and increased by over 5% versus the figure in 1Q13 (Euro 38.1 million).

On a **like-for-like basis** with 1Q13 (print media publishing, advertising and Il Trovatore), in 1Q14 consolidated gross revenue came to approximately Euro 64.7 million, essentially in line with 1Q13 (Euro 67.5 million). Gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 5 million and Euro 4.3 million (Euro 5.8 million and Euro 5 million).

3. Consolidated income statement figures

The main **consolidated income statement** figures in 1Q14 can be compared with the figures in 1Q13:

(€ thousands)	31/03/2014 (Quarter)	31/03/2013 (Quarter)
Gross operating revenue	65,878	66,053
Advertising agency discounts	(6,589)	(6,842)
Net operating revenue	**59,289**	**59,211**
Change in inventory	(55)	(17)
Other revenue and income	2,650	1,467
Total revenue	**61,884**	**60,661**
Production cost	(41,018)	(48,451)
Personnel expense	(15,087)	(6,415)
Gross operating profit (EBITDA)	**5,779**	**5,795**
Amortization, depreciation, provisions and impairment losses	(1,121)	(794)
Operating profit (EBIT)	**4,658**	**5,001**
Net financial income	730	481
Income (loss) on investments	0	310
Pre-tax profit	**5,388**	**5,792**
Income tax	(473)	(2,022)
Non-controlling interests	(4)	-
Profit from continuing operations attributable to the owners of the parent	**4,911**	**3,770**
Profit/(loss) from discontinued operations	-	-
Profit attributable to the owners of the parent	**4,911**	**3,770**

To provide a better understanding of the figures in terms of comparison, it should be noted that the 1Q13 income statement does not include the results of La7 S.r.l., which entered the Group's scope of consolidation on 1 May 2013.

In 1Q14, consolidated gross revenue amounted to approximately Euro 68.5 million, growing by Euro 1 million (1.5%) versus 1Q13 (Euro 67.5 million). The consolidation of La7 S.r.l. brought no significant change to revenue, since over 90% of La7 S.r.l. revenue is generated by advertising sales made by Cairo Communication under the existing advertising concession contract.

Consolidated gross operating profit (EBITDA) and operating profit (EBIT) amounted to approximately Euro 5.8 million and Euro 4.7 million, the former essentially in line and the latter losing 7% versus 1Q13 (Euro 5.8 million and Euro 5 million). Consolidated profit came to approximately Euro 4.9 million growing by 30% versus 1Q13 (Euro 3.8 million).

As mentioned earlier, gross operating profit (EBITDA) and operating profit (EBIT) in the TV publishing segment (La7) came to approximately Euro 0.8 million and Euro 0.3 million. Operating profit (EBIT) in this segment benefited in the consolidated financial statements from lower amortization and depreciation of Euro 7.6 million, due to the write-down of tangible and intangible assets made in the purchase price allocation of the investment. Net of these effects, it would have shown a negative figure of approximately Euro 7.3 million.

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

(€ thousands)	**31/03/2014**	**31/03/2013**
Consolidated statement of comprehensive income		
Profit attributable to the owners of the parent	**4,911**	**3,770**
Other non-reclassifiable items of the statement of comprehensive income		-
Actuarial profit (loss) from defined benefit plans	-	-
Tax effect		
Total comprehensive income	**4,911**	**3,770**

The Group's performance can be read better by analyzing the results in 1Q14 by **main business segment** (magazine publishing, advertising, TV publishing (La7) and Il Trovatore) versus those of 1Q13:

31/03/2014 (€ thousands)	**Magazine publishing**	**Advertising**	**TV publishing La7** **Current operations**	**Non-recurring items**	**Trovato-re**	**Unallocat ed operati ons**	**Intra-group**	**Total**
Gross operating revenue	22,105	45,788	28,518	-	214	-	(30,747)	65,878
Advertising agency discounts	-	(6,589)						(6,589)
Net operating revenue	**22,105**	**39,199**	**28,518**	**-**	**214**	**-**	**(30,747)**	**59,289**
Change in inventory	(55)	-	-	-	-	-	-	(55)
Other income	552	380	1,718	-	-	-	-	2,650
Total revenue	**22,602**	**39,379**	**30,236**	**-**	**214**	**-**	**(30,747)**	**61,884**
Production cost	(15,433)	(35,378)	(20,779)	-	(175)	-	30,747	(41,018)
Personnel expense	(4,785)	(1,588)	(8,705)	-	(9)	-	-	(15,087)
Gross operating profit (EBITDA)	**2,384**	**2,613**	**752**	**-**	**30**	**-**	**-**	**5,779**
Amortization, depreciation, provisions and impairment losses	(251)	(461)	(409)		-	-	-	(1,121)
Operating profit (EBIT)	**2,133**	**2,152**	**343**	**-**	**30**	**-**	**-**	**4,658**
Income / (loss) on investments	-	-	-	-	-	-	-	-
Net financial income	30	200	500	-	-	-	-	730
Non-recurring income from acquisition of La7 S.r.l.	-	-	-	-	-	-	-	-
Pre-tax profit	**2,163**	**2,352**	**843**	**-**	**30**	**-**	**-**	**5,388**
Income tax	(876)	(839)	1,253	-	(11)	-	-	(473)
Non-controlling interests	-				(4)	-	-	(4)
Profit from continuing operations attributable to the owners of the parent	**1,287**	**1,513**	**2,096**	**-**	**15**	**-**	**-**	**4,911**
Profit / (loss) from discontinued operations	-	-	-	-	-	-	-	-
Profit	**1,287**	**1,513**	**2,096**	**-**	**15**	**-**	**-**	**4,911**

31/03/2013 (€ thousands)	Magazine publishing	Advertising	TV publishing La7 Current operations	TV publishing La7 Non-recurring items	Trova-Tore	Unallocated operations	Intra-group	Total
Gross operating revenue	22,961	47,661	-	-	93	-	(4,662)	66,053
Advertising agency discounts	-	(6,842)	-	-	-	-	-	(6,842)
Net operating revenue	**22,961**	**40,819**	**-**	**-**	**93**	**-**	**(4,662)**	**59,211**
Change in inventory	(17)	-	-	-	-	-	-	(17)
Other income	578	889	-	-	-	-	-	1,467
Total revenue	**23,522**	**41,708**	**-**		**93**	**-**	**(4,662)**	**60,661**
Production cost	(16,418)	(36,614)	-	-	(81)	-	4,662	(48,451)
Personnel expense	(4,794)	(1,613)	-	-	(8)	-	-	(6,415)
Gross operating profit (EBITDA)	**2,310**	**3,481**	**-**	**-**	**4**	**-**	**-**	**5,795**
Amortization, depreciation, provisions and impairment losses	(308)	(486)	-	-	-	-	-	(794)
Operating profit (EBIT)	**2,002**	**2,995**	**-**	**-**	**4**	**-**	**-**	**5,001**
Income (loss) on investments	-	310	-	-	-	-	-	310
Net financial income	22	459	-	-	-	-	-	481
Non-recurring income from acquisition of La7 S.r.l.	-	-	-	-	-	-	-	-
Pre-tax profit	**2,024**	**3,764**	**-**	**-**	**4**	**-**	**-**	**5,792**
Income tax	(842)	(1,179)	-	-	(1)	-	-	(2,022)
Non-controlling interests	-	-	-		-	-	-	-
Profit from continuing operations attributable to the owners of the parent	**1,182**	**2,585**	**-**	**-**	**3**	**-**	**-**	**3,770**
Profit / (loss) from discontinued operations	-	-	-	-	-	-	-	-
Profit	**1,182**	**2,585**	**-**	**-**	**3**	**-**	**-**	**3,770**

4. Consolidated statement of financial position figures

The main **consolidated statement of financial position figures** at 31 March 2014 can be compared with the situation at 31 December 2013:

(€ thousands)	31/03/2014	31/12/2013
Statement of financial position		
Property, plant and equipment	2,760	2,829
Intangible assets	14,590	12,986
Financial assets	563	555
Deferred tax assets	4,380	4,589
Net current assets	(22,103)	(22,390)
Total assets	**190**	**(1,431)**
Non-current borrowings and provisions	46,551	46,814
(Net financial assets)/Net debt	(175,955)	(172,915)
Equity attributable to the owners of the parent	129,578	124,658
Equity attributable to non-controlling interests	16	12
Total equity and liabilities	**190**	**(1,431)**

The Shareholders’ Meeting of 29 April 2014 resolved to distribute a dividend of 0.27 Euro per share, inclusive of tax, with coupon detachment date on 12 May 2014 (payable on 15 May 2014), for a total of Euro 21.2 million. At 31 March 2014, this amount was still included in the equity reserves.

Mention should be made that in the consolidated financial statements at 31 December 2013 (Note 10), the acquisition of La7 S.r.l . had been accounted for under IFRS 3, applying the so-called "acquisition method", by measuring the fair value of the identifiable assets and liabilities acquired, and taking into account the future income capacity of La7 S.r.l.. This method resulted in:

- the recognition of " provisions for future risks and charges" of Euro 21.4 million, arising from a number of contracts whose unavoidable costs of meeting contractual obligations exceed the economic benefits expected to be received, and from specific risk situations related to (i) existing contracts and (ii) pending litigation,
- the total write-down of non-current assets of La7 at the acquisition date (30 April 2013), consisting mainly of TV broadcasting rights, and specific technical equipment, whose value was considered unrecoverable given the income prospects of the acquired company at that date.

IFRS 3 provides for a period of twelve months from the acquisition date for completion of the fair value measurement of assets acquired and liabilities assumed. Should new information emerge on facts and circumstances existing at the acquisition date, or additional assets and liabilities be identified during the evaluation period as defined by IFRS 3, the provisional amounts are adjusted retrospectively.

The Cairo Communication Group:

- is not exposed to liquidity risk, in that on one hand, significant financial resources are held, with an available positive net financial position of Euro 176 million, whilst on the other hand, it generates positive results in its traditional segments and is able to fund its current operations also through the dynamics of current assets. Regarding the TV publishing segment, in 2014 the Group will continue to engage on a plan to restructure the company, with the aim of strengthening the results of the rationalization and cost curbing measures achieved during the eight months of activity in 2013, and to achieve a turnaround;

- is not exposed to currency risk, whereas interest rate risk only affects the yield on available cash; the Group does not use financial derivative and/or hedging instruments,
- is partly exposed to credit risk, primarily in relation to its advertising sales activities. This risk is however mitigated by the fact that exposure is distributed across a large number of customers and that credit monitoring and control procedures are in place. The client concentration/advertising revenue ratio is basically unchanged from prior years. The prolonged short and medium-term economic uncertainty may, however, impact negatively on the quality of credit and on general payment terms.

In 2014, as part of the share buy-back plans, no treasury shares were purchased or sold. At 31 March 2014, Cairo Communication held a total of n. 779 treasury shares, or 0.001% of the share capital, subject to art. 2357-ter of the Italian Civil Code.

5. Change in the consolidated net financial position

The consolidated **net financial position** at 31 March 2014, versus the situation at 31 December 2013, can be summarized as follows:

(€ thousands)	**31/03/2014**	**31/12/2013**	**Change**
Cash and cash equivalents	175,955	172,915	3,040
Current financial assets	-	-	-
Total	**175,955**	**172,915**	**3,040**

At 31 March 2014, the net financial position of La7 was Euro 114.1 million (Euro 115.8 million at 31 December 2013). As explained further in Note 35, “Commitments and risks” of the consolidated financial statements at 31 December 2013, under the contract to acquire the entire share capital of La7, for a period of 24 months following acquisition, Cairo Communication undertakes to use the financial resources resulting from the contribution received from Telecom Italia Media in the exclusive interest of La7 and to restructure the company, and to not distribute dividends or reserves of La7.

6. Revenue

The breakdown of **gross operating revenue** in 1Q14, split up into the main business segments (magazine publishing, advertising, TV publishing, and Il Trovatore), can be analyzed as follows by comparing the amounts with those in 1Q13:

Gross revenue	**Interim Management Report at 31/03/2014**					
(€ thousands)						
	Magazine publishing	**Advertising**	**TV publishing (La 7)**	**Trovatore**	**Intra-group eliminations**	**Total**
Magazine over-the-counter sales	17,521	-	-	-	-	17,521
Print media advertising	4,058	5,388	-	-	(4,046)	5,400
TV advertising	-	39,265	27,654	-	(26,293)	40,626
Stadium signage	-	792	-	-	-	792
Internet advertising	-	193	73	4	(73)	197
Revenue from concession of programming schedule spaces	-	-	286	-	-	286
Other TV revenue	-	-	505	-	-	505
Subscriptions	715	-	-	-	-	715
Books and catalogues	103	-	-	-	-	103
Other revenue	5	150		210	(335)	30
VAT relating to publications	(297)	-	-	-	-	(297)
Total gross operating revenue	**22,105**	**45,788**	**28,518**	**214**	**(30,747)**	**65,878**
Other revenue and income	552	380	1,718	-	-	2,650
Total revenue	**22,657**	**46,168**	**30,236**	**214**	**(30,747)**	**68,528**

Gross revenue	**Interim Management Report at 31/03/2013**					
(€ thousands)						
	Magazine publishing	**Advertising**	**TV publishing (La 7)**	**Trovatore**	**Intra-group eliminations**	**Total**
Magazine over-the-counter sales	17,814	-	-	-	-	17,814
Print media advertising	4,541	5,918	-	-	(4,457)	6,002
TV advertising	-	40,728	-	-	-	40,728
Stadium signage	-	831	-	-	-	831
Internet advertising	-	37	-	8	-	45
Revenue from concession of programming schedule spaces	-	-	-	-	-	-
Other TV revenue	-	-	-	-	-	-
Subscriptions	749	-	-	-	-	749
Books and catalogues	150	-	-	-	-	150
Other revenue	-	147	-	85	(205)	27
VAT relating to publications	(293)	-	-	-	-	(293)
Total gross operating revenue	**22,961**	**47,661**	**-**	**93**	**(4,662)**	**66,053**
Other revenue and income	578	889	-	-	-	1,467
Total revenue	**23,539**	**48,550**	**-**	**93**	**(4,662)**	**67,520**

PUBLISHING

CAIRO EDITORE - CAIRO PUBLISHING

As mentioned earlier, in 1Q14 Cairo Editore strengthened the results of its publications and worked on improving the levels of efficiency reached in containing production, publishing and distribution costs;

In 1Q14:

- sales revenue from Group publications, amounting to Euro 17.5 million, were basically in line (-1.6%) with 1Q13 (Euro 17.8 million),
- Group gross advertising revenue, which reached Euro 5.3 million, fell by 10.3% versus 1Q13 (*AC Nielsen*, -14.7% the magazine advertising market in the January-February two-month period of 2014).

Gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 2.4 million and Euro 2.1 million (Euro 2.3 million and Euro 2 million in 1Q13).

The Group's weeklies confirmed the remarkable sales levels achieved. In February 2014, the average ADS circulation figures show 540,371 copies for "Settimanale DIPIU", 359,166 copies for "DIPIU' TV", 205,510 copies for "Settimanale DIPIU' e DIPIU'TV Cucina", 204,010 copies for "Diva e Donna", 215,384 copies for "Settimanale Nuovo", 138,569 copies for "F", 160,797 copies for "TVMia", and 95,548 copies for "Settimanale Giallo", for a total of over 1.9 million average copies sold. This makes the Group the leading publisher for copies of weeklies sold at newsstands, with an over 25% market share.

At 13 May 2014, the order book for advertising on Group publications in the April-May two-month period of 2014 grew to approximately Euro 5.9 million up by over 4% versus the final revenue reported in the April-May two-month period of 2013.

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

- cover prices of weeklies are lower, some half the price of those of the main competitors; this gap increases appeal and allows space for potential price increases, hence for increased profitability;
- sales revenue is mostly generated at newsstands (95%), with an extremely low percentage (approximately 2% on total publishing revenue, including advertising) of revenue generated by gadgets and collaterals, whose sales figures have collapsed of late in the publishing segment; the Group has opted to focus on the quality of its

publications; furthermore, in 2013, gross advertising revenue generated by the Group's publications accounted for 27% (down to 24% in 1Q14) - an extremely low figure if compared with the revenue breakdown of other major publishing groups, therefore based to a lesser extent on the economic cycle - while 73% (up to 76% in 1Q14) came from direct sales and subscriptions, proof of the high editorial quality of its publications;

- weekly magazines, which account for approximately 90% 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 Communication's competitors, make the advertising pages highly appealing in terms of advertising cost per copy sold (equal to the ratio between the price of the advertising page and copies sold), currently lower than the publications of its competitors.

In 1Q14, Cairo Editore continued to pursue opportunities to optimize production, publishing and distribution costs, which mainly regarded negotiations for the reduction of paper costs, the optimization of bordereau costs, and the revision of certain corporate processes.

ADVERTISING

Regarding the advertising segment, in 1Q14 the Cairo Communication Group continued to operate as advertising broker – with subsidiary Cairo Pubblicità – selling space in the print media for Cairo Editore ("For Men Magazine", "Natural Style", "Settimanale DIPIU'", "DIPIU' TV" and weekly supplements "Settimanale DIPIU' e DIPIU'TV Cucina" and "Settimanale DIPIU' e DIPIU'TV Stellare", "Diva e Donna", "TV Mia", "Settimanale Nuovo", "F" and "Settimanale Giallo"), the Editoriale Giorgio Mondadori division ("Bell'Italia", "Bell'Europa", "In Viaggio", "Airone", "Gardenia", "Arte" and "Antiquariato") and for Editoriale Genesis ("Prima Comunicazione" and "Uomini e Comunicazione"), for the sale of advertising space on TV for La7 and La7d, and for Turner Broadcasting (Cartoon Network, Boomerang, CNN), on the Internet mainly for Turner Broadcasting (Cartoon Network.it, Cnn.com) and for the sale of stadium signage and space at the Olimpico in Turin for Torino FC.

In 1Q14, total advertising revenue, which amounted to Euro 45.8 million, dropped slightly versus 1Q13 (Euro 47.7 million), due mainly to the magazine advertising market trend (*AC Nielsen* -14.7% the magazine advertising market in the January-February two-month period of 2014). To assess the revenue trend, one should bear in mind that in 1Q13, advertising sales on Sportitalia channels, whose advertising sales concession contract was terminated by mutual consent on 30 April 2013, had generated gross advertising revenue of approximately Euro 1.8 million.

Starting from the second half of 2013, TV advertising revenue began picking up pace, driven by the recovery of the market and the strong growth in La7's audience figures; in 4Q13 in particular, advertising sales on La7 and La7d reached Euro 48.4 million, growing by approximately 6.5% versus 4Q12 (Euro 45.5 million).

In 1Q14, advertising sales on La7 and La7d, amounting to Euro 40.1 million, confirmed this trend and grew by over 5% versus 1Q13 (Euro 38.1 million).

Gross operating profit (EBITDA) and operating profit (EBIT) in the advertising segment came to Euro 2.6 million and Euro 2.2 million (Euro 3.5 million and Euro 3 million in 1Q13).

TV PUBLISHING (La7)

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

Starting from May 2013, the Group began to implement its own plan and succeeded in achieving as early as the May-December eight-month period of 2013 a positive gross operating profit (EBITDA) of Euro 3.7 million. In the April-December 2012 nine-month period, gross operating loss and operating loss had amounted to approximately Euro 50.5 million [1] In particular in 4Q13 gross operating profit was Euro 3 million, when in the same period of 2012 gross operating profit had shown a loss of Euro 17.9 million[2]).

In 2014, the Group continued to implement its own plan to restructure La7, by adopting the following main guidelines:

- confirming the current editorial line and those programs that represent the main strengths of the channel,

[1] *Source: Figure estimated on the basis of segment information drawn from the interim report at 31 March 2012 and from the 2012 annual financial report of Telecom Italia Media S.p.A. available on the websites of Borsa Italiana and Telecom Italia Media.*

[2] *Source: Figure estimated on the basis of segment information drawn from the 2012 annual financial report and the interim report at 30 September 2012 of Telecom Italia Media S.p.A available on the websites of Borsa Italiana and Telecom Italia Media.*

- curbing costs, focusing in particular on “unproductive” cost items and items that exceed the cost/benefit ratio, and on recovering efficiency,
- enhancing the high quality of the La7 target audience, to maintain and develop the high level of advertising revenue against the general market backdrop;

succeeding in (i) strengthening the results of the cost rationalization measures adopted during the eight months of activity in 2013 and (ii) achieving also in 1Q14 a positive gross operating profit (EBITDA) of Euro 0.8 million, when in 1Q13 gross operating profit for La7 had shown a loss of 15.8 million.

Given the characteristics of La7’s programming schedule and breakdown of advertising revenue over the year, the first quarter normally presents, with respect to the remaining part of the year, a higher percentage of internal production costs on revenue.

The results of the TV publishing segment in 1Q13 can be analyzed as follows:

(€ thousands)	**31/03/2014 (Three months)**	**31/03/2013 (Three months)***
Gross operating revenue	28,518	25,889
Advertising agency discounts		
Net operating revenue	**28,518**	**25,889**
Change in inventory	-	1,546
Other revenue and income	1,718	1,582
Total revenue	**30,236**	**29,017**
Production costs	(20,779)	(35,266)
Personnel expense	(8,705)	(9,511)
Gross operating profit (EBITDA)	**752**	**(15,760)**
Amortization, depreciation, provisions and impairment losses	(409)	(8,707)
Operating profit (EBIT)	**343**	**(24,467)**

** Amounts not included in the consolidated income statement at 31 March 2013 as the company was acquired subsequently*

In 1Q14, La7, which generated a positive gross operating profit of (EBITDA) of Euro 0.8 million, did not absorb cash (positive net financial position of Euro 114.1 million at 31 March 2014).

Gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro 0.8 million and Euro 0.3 million. Operating profit (EBIT) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 7.6 million, due to the write-down of tangible and intangible assets made in the purchase price allocation of the investment. Net of these effects, it would have shown a negative figure of approximately Euro 7.3 million.

In 1Q13 - when La7 had not been included yet in the scope of consolidation of the Cairo Communication Group - gross operating loss and operating loss had amounted to approximately Euro 15.8 million and Euro 24.5 million.

In 1Q14, La7's average all-day share was 3.60% and 4.21% in prime time (from 8:30 PM to 11:30 PM), with a high-quality target audience. La7d's share grew by 0.51%. The results of the channel's news and discussion programmes - such as the 8 PM newscast (6.3%), "Otto e mezzo" (5.8%), "Piazza Pulita" (5.1%), "Crozza nel Paese delle Meraviglie" (9.1%) "Servizio Pubblico" (8.7%), "Le invasioni Barbariche" (4.3%), "Coffee Break" (5.6%), "Omnibus" (4.4%), "La Gabbia" (3.7%) and "L'aria che tira" (6.5%) – were highly positive.

IL TROVATORE

In 2014, Il Trovatore continued operations, mainly providing technological services to develop and maintain the online platforms of the Group's companies.

7. Income statement figures of the Parent

The main **income statement figures of Cairo Communication S.p.A.** in 1Q14 can be compared with those in 1Q13:

(€ thousands)	31/03/2014 (Quarter)	31/03/2013 (Quarter)
Gross operating revenue	30,246	29,875
Advertising agency discounts	-	-
Net operating revenue	**30,246**	**29,875**
Other revenue and income	85	795
Total revenue	**30,331**	**30,670**
Production cost	(27,835)	(27,630)
Personnel expense	(724)	(861)
Gross operating profit (EBITDA)	**1,772**	**2,179**
Amortization, depreciation, provisions and impairment losses	(58)	(33)
Operating profit (EBIT)	**1,714**	**2,146**
Net financial income	182	396
Income (loss) on investments	(1)	194
Pre-tax profit	**1,895**	**2,736**
Income tax	(626)	(839)
Non-controlling interests		
Profit from continuing operations	**1,269**	**1,897**
Loss from discontinued operations	-	-
Profit	**1,269**	**1,897**

In 2014, Cairo Communication continued to operate in TV advertising sales (La7, La7d and theme channels Cartoon Network, Boomerang and CNN) and on the Internet through its subsidiary Cairo Pubblicità on a sub-concession basis, invoicing advertising spaces directly to its customers and returning to the sub-grantor Cairo Communication a share of revenue generated by resources managed on a sub-concession basis. Specifically:

- gross operating revenue was approximately Euro 30.3 million (Euro 30.7 million in 1Q13);
- parent gross operating profit (EBITDA) was approximately Euro 1.8 million (Euro 2.2 million in 1Q13);
- operating profit (EBIT) was approximately Euro 1.7 million (Euro 2.1 million in 1Q13);
- profit was approximately Euro 1.3 million (Euro 1.9 million in 1Q13).

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

(€ thousands)	**31/03/2014**	**31/03/2013**
Statement of comprehensive income of the Parent	1,269	1,897
Profit		
Other non-reclassifiable items of the statement of comprehensive income		-
Actuarial profit (loss) from defined benefit plans	-	-
Tax effect	-	-
Total statement of comprehensive income	**1,269**	**1,897**

8. Statement of financial position of the Parent

The main figures of the **statement of financial position** of Cairo Communication S.p.A. at 31 March 2014 can be analyzed versus the situation at 31 December 2013:

(€ thousands)	**31/03/2014**	**31/12/2013**
Statement of financial position		
Property, plant and equipment	519	549
Intangible assets	341	356
Financial assets	17,644	17,614
Other non-current assets	13	13
Net current assets	2,031	14,961
Total assets	**20,548**	**33,493**
Non-current borrowings and provisions	1,059	1,346
(Net financial position)/Net debt	(49,690)	(35,690)
Equity	69,179	67,837
Total equity and liabilities	**20,548**	**33,493**

As mentioned in the notes to the consolidated statement of financial position, the Shareholders' Meeting of 29 April 2014 resolved to distribute a dividend of 0.27 Euro per share, inclusive of tax, with coupon detachment date on 12 May 2014 (payable on 15 May 2014). At 31 March 2014, this amount, equal to Euro 21.2 million, was still included in the equity reserves.

9. Change in the net financial position of the Parent

The **net financial position** of the Parent at 31 March 2014, versus the situation at 31 December 2013, is summarized as follows:

(€ thousands)	**31/03/2014**	**31/12/2013**	**Change**
Cash and cash equivalents	49,690	35,690	14,000
Current financial assets	-	-	-
Total	**49,690**	**35,690**	**14,000**

10. Transactions with parents, subsidiaries and associates

In 1Q14, transactions with related parties, including with Group companies, were not considered to be atypical or unusual, and were part of the ordinary activities of Group companies. These transactions were carried out on market terms, taking account of the goods and services provided.

In 1Q14, the relations and transactions with the parent U.T. Communications and with its subsidiaries can be analyzed as follows:

- the concession contract between Cairo Pubblicità and Torino FC S.p.A. (a subsidiary of U.T. Communications) for the sale of advertising space at the Olimpico football pitch and promotional sponsorship packages. This contract resulted in the payment in 1Q14 of Euro 0.6 million to the concession holder against revenue of Euro 0.8 million, net of agency discounts. Cairo Pubblicità earned further commissions of Euro 9 thousand;
- the agreement between Cairo Communication S.p.A. and Torino F.C. for the provision of administrative services such as bookkeeping, which provides for an annual consideration of Euro 100 thousand;
- the agreement relating to the purchase of advertising space at the Olimpico football pitch between Cairo Editore and Torino F.C., for an annual consideration of Euro 100 thousand;
- the participation to the national tax consolidation scheme of UT Communications S.p.A.

At their meeting on 29 April 2014, the shareholders resolved to determine the total remuneration for the Board of Directors, pursuant to art. 2389, paragraph 1 of the Italian Civil Code, in the amount of Euro 260,000 per annum for each financial year, and approved the 2014 remuneration policy, as illustrated in Section 1 of the Remuneration Report, drawn up pursuant to article 123-

ter of Legislative Decree 58/1998 and 84 *quater* of the Issuers' Regulations, and approved by the Board of Directors on 11 March 2014.

11. Events occurring after 1Q14 and business outlook

After the end of the reporting period:

- on 11 April 2014, the subsidiary Cairo Network S.r.l. (former Cairo Sport S.r.l.) filed an application with the Ministry of Economic Development to take part in the procedure for awarding rights to use TV frequency bandwidth for digital terrestrial broadcasting systems (resolution no. 277/13/CONS of 11 April 2013 of AGCOM - the call for tender published in the State Gazette of the Italian Republic on 12 February 2014), being the only economic entity to file such a request. Specifically, the application was filed to take part in the awarding of the rights to use the lot named “Lot L3” in the call, which has an estimated nominal coverage of the population of 96.6% and an auction base of Euro 31.6 million. At the date of approval of this Report, the Ministry of Economic Development has yet to announce the admission to the next phase (that of tender) of the award procedure; from such notice, Cairo Network will have thirty days to possibly submit its bid;
- at their meeting on 29 April 2014, the shareholders:
  - appointed for a three-year period, until approval of the financial statements at 31 December 2016, on the basis of the single list submitted by the majority shareholder UT Communications S.p.A., the Board of Directors of the company, composed of:
    - three Executive Directors: the Chairman Urbano Cairo, Uberto Fornara and Marco Pompignoli,
    - three non-executive directors: Antonio Magnocavallo, Roberto Cairo and Maria Laura Cairo, and
    - four independent directors: Marco Janni, Mauro Sala, Roberto Rezzonico and Stefania Petruccioli;
  - appointed for a three-year period, until approval of the financial statements at 31 December 2016, on the basis of the single list submitted by the majority shareholder UT Communications S.p.A., the Board of Statutory Auditors, composed of three standing auditors, Marco Moroni, Chairman, Maria Pia Maspes and Marco Giuliani, and two alternate auditors, Emilio Fano and Enrico Tamborini.

In 1Q14, the Group came to terms with a challenging relevant market, advertising in particular (*AC Nielsen*, January-February 2014, TV advertising market essentially in line, while magazine advertising market lost 14.7% versus 1Q13). The persisting uncertainty factors in the short-medium economic term also hit magazine sales figures.

Despite this backdrop, in 1Q14 the Cairo Communication Group:

- strengthened the results of the cost rationalization measures in the TV publishing segment (La7) implemented during the eight months of activity in 2013, and continued to pursue a turnaround, succeeding in achieving also in 1Q14 a positive gross operating profit (EBITDA) of Euro 0.8 million, versus the gross operating loss of Euro 15.8 million of La7 in 1Q13;
- strengthened the results of “F”, “Settimanale Nuovo” and “Settimanale Giallo”, confirmed the high circulation levels of the other publications, and worked on improving the levels of efficiency reached in containing costs in the magazine publishing segment (production, publishing and distribution);
- kept advertising revenue levels high, with the aim of maintaining and developing them throughout the rest of the year, despite the general market trend; specifically, in 1Q14, advertising sales on La7 and La7d, amounting to Euro 40.1 million, confirmed this trend and grew by over 5% versus 1Q13 (Euro 38.1 million);
- achieved highly positive results in its traditional segments (magazine publishing and advertising), despite the general economic and financial climate and relevant markets trend.

In 2014, the Cairo Communication Group will continue to pursue the development of its traditional segments (magazine publishing and advertising). 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.

Regarding the TV publishing segment, in the remaining part of 2014 the Group will continue to engage on a plan to restructure the company, with the aim of strengthening the results of the rationalization and cost curbing measures achieved in the first eleven months of activity, and of continuing to pursue the turnaround.

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

For the Board of Directors

Chairman Urbano Cairo

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

The Financial Reporting Manager of Cairo Communication S.p.A., Marco Pompignoli, declares, pursuant to 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