Interim Management Report at 30 September 2016

Cairo Communication S.p.A.
Head office: Via Tucidide 56, 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
Laura Maria Cairo	Director
Roberto Cairo	Director
Marco Janni	Director
Antonio Magnocavallo	Director
Paola Mignani	Director
Marco Pompignoli	Director
Roberto Rezzonico	Director
Mauro Sala	Director

Control and Risk Committee

Roberto Rezzonico	Director
Mauro Sala	Director
Antonio Magnocavallo	Director

Remuneration Committee

Antonio Magnocavallo	Director
Roberto Rezzonico	Director
Mauro Sala	Director

Related Party Committee

Marco Janni	Director
Mauro Sala	Director
Paola Mignani	Director

Board of Statutory Auditors

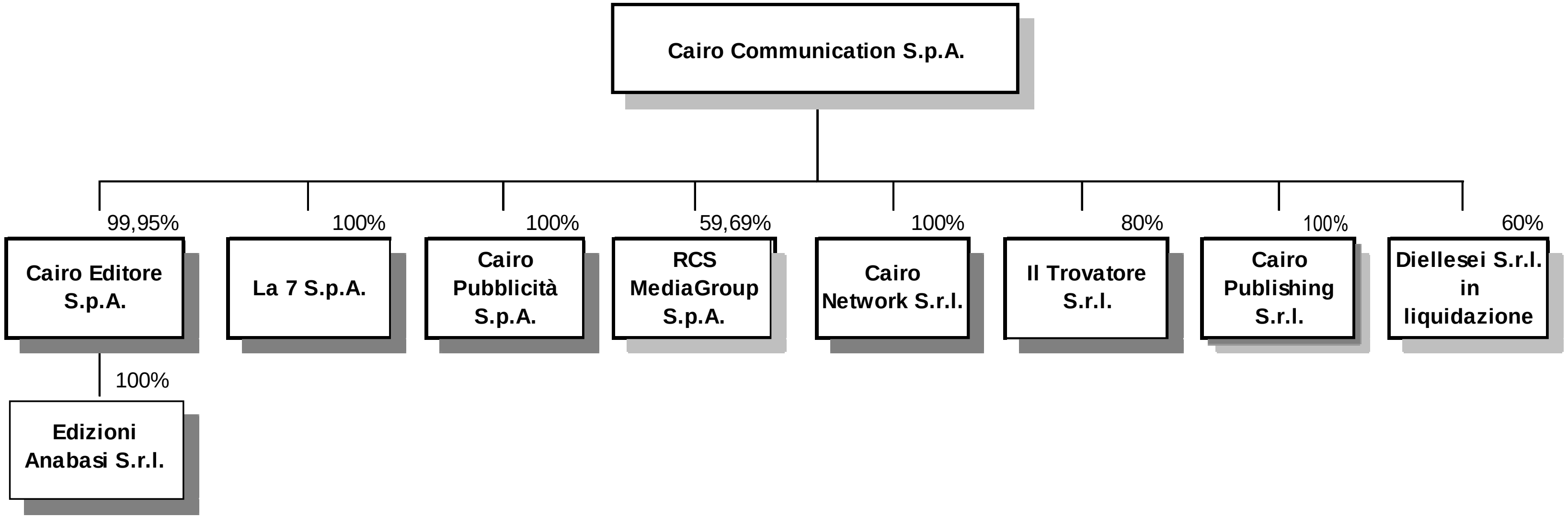
Marco Moroni	Chairman
Marco Giuliani	Standing auditor
Maria Pia Maspes	Standing auditor
Emilio Fano	Alternate auditor
Enrico Tamborini	Alternate auditor

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 30 September 2016



1. Valuation principles and criteria adopted in preparing the Interim Management Report at 30 September 2016

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

The Interim Management Report at 30 September 2016 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 3Q16 and in 9M16 are shown versus the corresponding periods of 2015. Statement of financial position and net equity figures appearing in the financial statements are compared with the figures of the consolidated and separate financial statements at 31 December 2015.

The quarterly financial statements at 30 September 2016, as for those at 30 September 2015, have been prepared net of tax and tax effects.

In 2016, after launching a voluntary public tender offer (the “Offer”), Cairo Communication acquired the control of RCS MediaGroup S.p.A. ("RCS” or “RCS Group”) and consolidated the company. Since RCS Group prepared the first end-of-month closure after the completion date of the transaction on 31 August 2016, the date of initial consolidation adopted is 1 September 2016.

There were no other changes to the scope of consolidation from the consolidated financial statements for the year ended 31 December 2015.

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

The alternative indicators are:

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

<u>Profit from continuing operations, pre tax</u>

+/- Net finance income

+/- Share in associates

<u>EBIT - Operating profit</u>

+ Amortization & depreciation

+ Bad debt impairment losses

+ Provisions for risks

+ Income (charges) on investments measured at equity[1]

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

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

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

The main differences between the two definitions of EBITDA lie in the provisions for risks and in the allowance for impairment, included in the EBITDA definition adopted by RCS, while they are excluded from the EBITDA definition adopted by Cairo Communication. Owing to the differences between EBITDA definitions adopted, in this Interim Management Report at 30 September 2016, 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 indicator of the Group's financial structure determined as a result of current and non-current financial liabilities, net of cash and cash equivalents and current financial assets.

2. Group performance

In 9M16, the Cairo Communication Group continued to operate as a:

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

[1] Included following the consolidation of RCS

- network operator (Cairo Network), for the activities of which, in 2016, work continued on the implementation of the mux.

In 2016 Cairo Communication launched a voluntary public tender offer (the "Offer") on all ordinary shares of RCS MediaGroup S.p.A. ("RCS"), for a consideration composed of no. 0.18 Cairo Communication shares and 0.25 Euro in cash for each RCS share tendered. Following the end of the acceptance period, on 15 July 2016, no. 254.8 million RCS shares had been tendered to the Offer, equal to 48.82% of the RCS share capital, payment of the consideration of which was made on 22 July 2016. In addition, between 22 to 28 July 2016, in accordance with applicable law, further no. 56.7 million RCS shares had been tendered to the Offer, which correspond to 10.87% of the RCS share capital, payment of the consideration of which was made on 4 August 2016. A total of no. 311.5 million RCS shares, equal to 59.69% of the RCS share capital, had been tendered to the Offer, for a total consideration of no. 56 million Cairo Communication shares and Euro 77.9 million in cash.

In 9M16, the general economic and financial context continued to be marked by uncertainty.

In Italy, the advertising market - after reporting a positive trend in 2H15 versus 2H14 (+3.4%, *AC Nielsen*) - showed, nonetheless, positive signs in 9M16, growing by 2.5%, driven by the performance of the TV advertising market (+7%), while the magazine and daily newspaper advertising market dropped by 3.8% and 6%. In 9M16, the online segment dropped by 2.2% versus 9M15 (*AC Nielsen*).

In Spain, where RCS operates through its subsidiary Unidad Editorial, the advertising sales market was up by 3.4% versus 9M15 (*i2p*, *Arce Media*). Specifically, the daily newspaper, magazine and supplement market fell, respectively, by 6.9%, 3.7% and 15.9% versus 9M15. Advertising sales on the Internet, instead, increased by 14.8%.

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 8 months of 2016. Specifically, generalist newspapers (with a circulation above 50 thousand copies) reported a drop in print circulation of 11.3% (13.3% including digital copies), while sports newspapers fell by 8.2% versus the same period in 2015 (*ADS*, January-August 2016).

The same trend was seen in Spain, with newspaper sales decreasing versus the same period in 2015. Cumulative figures on circulation in September (*OJD*) regarding generalist newspapers (generalist newspapers with a circulation above 70 thousand copies), business newspapers and sports newspapers indicate a drop, respectively, of 10%, 10.9% and 7.3%.

In 9M16, the Cairo Communication Group:

- acquired the control of RCS, becoming a major multimedia publishing group with a stable, independent leadership, well-positioned to establish itself as one of the major player on the Italian market, with a strong international presence in Spain, by leveraging on the high quality and diversification of products in the daily newspaper, magazine, television, web and sport events segments, maximizing the opportunities arising from the convergence of traditional media on digital platforms;
- achieved highly positive results in the Cairo Editore magazine publishing segment, confirming the high circulation levels of the publications, and worked on improving the levels of efficiency reached in containing costs (production, publishing and distribution);
- continued the growth strategy of Cairo Editore by launching the fortnightly magazine "Nuovo e Nuovo TV Cucina" in January (approximately 121 thousand average copies in the January-August eight-month period of 2016, *ADS*), and "Enigmistica Più" (162 thousand average copies in the first 24 issues);
- continued to work on strengthening the results of the rationalization and cost-curbing measures achieved in the TV publishing segment (La7) in 2013-2015; profit for the period (a negative gross operating profit of approximately Euro 2 million versus Euro 3.1 in 9M15) was affected by the significant investment made in the July-September quarter in programming costs to enhance the quality of the summer schedule, which increased all-day audience figures in the quarter by approximately 8% and by approximately 10% in prime time (from 8:30 PM to 11:30 PM), accelerating in September (approximately +17.2% in the all-day share and +28% in prime time).

Considering the **entire Group's scope of consolidation**, and therefore including also RCS for the month of September 2016, in 9M16, looking at **current operations**, consolidated gross revenue amounted to approximately Euro 272.1 million, rising sharply versus 9M15 (Euro 185.7 million), due mainly to the consolidation of RCS, which brought an increase of approximately Euro 83.4 million. Gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 23.8 million and Euro 10.9 million (Euro 10.8 million and Euro 4.8 million in 9M15). Profit attributable to the owners of the parent came to approximately Euro 6.3 million (Euro 6.6 million in 9M15). Including non-recurring charges associated with the Offer, consolidated gross operating profit (EBITDA), operating profit (EBIT) and profit attributable to the owners of the parent came, respectively, to Euro 22.1 million, Euro 9.2 million and Euro 5 million.

<u>On a like-for-like basis</u> with 2015, considering only the Cairo Editore magazine publishing segment, the advertising segment, the TV publishing segment (La7), Il Trovatore and the network operator, looking at **current operations** alone, <u>consolidated gross revenue</u> amounted to approximately Euro 188.7 million (including gross operating revenue of Euro 181.1 million and other revenue and income of Euro 7.6 million), up versus 9M15 (Euro 185.7 million, including gross operating revenue of Euro 177.4 million and other revenue and income of Euro 8.3 million). <u>Gross operating profit</u> (EBITDA) and <u>operating profit</u> (EBIT) came to Euro 10.3 million and Euro 3 million (Euro 10.8 million and Euro 4.8 million in 9M15). <u>Profit</u> attributable to the owners of the parent came to approximately Euro 4.3 million (Euro 6.6 million in 9M15).

Looking at the business segments, in 9M16:

- in the **magazine publishing segment (Cairo Editore)**, <u>gross operating profit</u> (EBITDA) and <u>operating profit</u> (EBIT) came to Euro 11.5 million and Euro 10.7 million (Euro 12.5 million and Euro 11.7 million in 9M15). Costs of approximately Euro 0.1 million and Euro 1.1 million were incurred for the launch of "Nuovo e Nuovo TV Cucina" and of "Enigmistica Più", for a total of approximately Euro 1.2 million. The period under review confirmed the excellent circulation results (Euro 56.4 million versus Euro 55.1 million in 9M15); regarding weeklies, with about 1.9 million average copies sold in the January-August eight-month period of 2016 (*ADS*), the Group retains its position as the leading publisher in copies of weeklies sold at newsstands, with a market share of approximately 30%. Including the average sales of titles out of the ADS survey (the copies sold of the first issues of "Enigmistica Più"), average copies sold exceed 2 million.
- in the **TV publishing segment (La7)**, the Group continued to work on strengthening the results of the rationalization and cost-curbing measures achieved in the 2013-2015 three-year period, with a negative <u>gross operating profit</u> (EBITDA) of approximately Euro 2 million in 9M16. <u>Operating profit</u> (EBIT) came to approximately Euro -8.2 million and benefited in the consolidated financial statements from lower amortization and depreciation of Euro 4.2 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 9M15, <u>gross operating profit</u> (EBITDA) and <u>operating profit</u> (EBIT) were negative and came to approximately Euro 3.1 million and Euro 7.7 million. <u>Operating profit</u> (EBIT) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 7.9 million;
- in the **advertising segment**, looking at current operations, <u>gross operating profit</u> (EBITDA) and <u>operating profit</u> (EBIT) came to Euro 0.7 million and Euro 0.6 million (Euro 1.3 million and Euro 0.7 million in 9M15). In 9M16, gross advertising sales on La7 and La7d channels

amounted to Euro 97.6 million, up by approximately 2% versus 9M15 (Euro 96.1 million). Advertising sales on Cairo Editore publications also reported a positive trend, reaching Euro 19.7 million at Group level, up by 4% versus 9M15 (Euro 18.9 million); based on the backlog as of November 14th 2016, it is possible to foresee advertising sales on Cairo Editore publications for the quarter October-December 2016 up more than 15% versus the same period of 2015 (Euro 7,2 million);

- in the **network operator segment**, the Group company Cairo Network continued implementing the mux, the TV broadcasting system based on digital terrestrial technology; at full performance, the mux will cover at least 94% of the national population, providing high-quality service levels;
- in the **RCS segment**, consolidated as from 1 September 2016, therefore for September alone, gross operating profit (EBITDA) and operating profit (EBIT) came, respectively, to Euro 13.5 million and Euro 7.9 million.

In 9M16, La7's average all-day share was 2.99% and 3.55% in prime time (from 8:30 PM to 11:30 PM), with a high-quality target audience. La7d's share was 0.58% (0.61% in prime time). The audience figures of the channel's news and discussion programmes - such as the 8 PM newscast (5.3% from Monday to Friday), "Otto e mezzo" (5.5%), "Piazza Pulita" (3.6%), "Crozza nel Paese delle Meraviglie" (7%), "Coffee Break" (4.2%), "Omnibus" (3.6%), "La Gabbia" (3.1%), "L'aria che tira" (5%), "Bersaglio Mobile" (3.4%), "Di martedì" (5.9%), "in Onda" (4.2 %) and the new "Eccezionale Veramente" (3.1%) - were positive.

Specifically, with the enhancement of the summer schedule in July and August 2016, the La7 network (La7 and La7d) achieved the best results in the last three years, with audience figures increasing in all time slots (+5.3% versus 9M15), accelerating in September (approximately +17.2% in the all-day share and +28% in prime time). In the July-September quarter all-day audience figures of the network (La7 and La7d) increased by approximately 8% and such a positive trend continues in October (+6%).

Cairo Communication Group – Consolidated figures

The main **consolidated income statement figures** in 9M16 can be compared as follows with those of 9M15:

(€ thousands)	30/09/2016 (Nine months)			30/09/2015 (Nine months)
	Current operations	**Non-recurring items**	**Total**	
Gross operating revenue	264,479	-	264,479	177,377
Advertising agency discounts	(22,464)	-	(22,464)	(16,560)
Net operating revenue	**242,015**	-	**242,015**	**160,817**
Change in inventory	(1,042)	-	(1,042)	46
Other revenue and income	7,611	-	7,611	8,284
Total revenue	**248,584**	-	**248,584**	**169,147**
Production cost	(156,959)	-	(156,959)	(114,296)
Personnel expense	(68,273)	-	(68,273)	(44,100)
Income (charges) on investments measured at equity	479		479	-
Non-recurring income and charges	-	(1,748)	(1,748)	-
Gross operating profit (EBITDA)	**23,831**	**(1,748)**	**22,083**	**10,751**
Amortization, depreciation, provisions and impairment losses	(12,882)	-	(12,882)	(5,952)
EBIT	**10,949**	**(1,748)**	**9,201**	**4,799**
Net financial income	(2,580)	-	(2,580)	520
Income (loss) on investments	-	-	-	-
Pre-tax profit	**8,369**	**(1,748)**	**6,621**	**5,319**
Income tax	(793)	481	(312)	1,295
Non-controlling interests	(1,277)	-	(1,277)	(14)
Profit from continuing operations attributable to the owners of the parent	**6,299**	**(1,267)**	**5,032**	**6,600**
Profit/ (loss) from discontinued operations attributable to the owners of the parent	(1)	-	(1)	-
Profit attributable to the owners of the parent	**6,298**	**(1,267)**	**5,031**	**6,600**

In 9M16, consolidated gross revenue amounted to approximately Euro 272.1 million (comprising gross operating revenue of Euro 264.5 million and other revenue and income of Euro 7.6 million), rising sharply versus 9M15 (Euro 185.7 million, comprising gross operating revenue of Euro 177.4 million and other revenue and income of Euro 8.3 million), due mainly to the consolidation of RCS, which brought an increase of approximately Euro 83.4 million. Consolidated gross operating profit (EBITDA) and operating profit (EBIT) from current operations came to approximately Euro 23.8 million and Euro 10.9 million (Euro 10.8 million and Euro 4.8 million in 9M15). Non-recurring charges are attributable to part of the costs incurred for the Offer. A further part of the charges was deducted from the share premium reserve.

Including non-recurring charges associated with the Offer, consolidated gross operating profit (EBITDA), operating profit (EBIT) and profit came, respectively, to Euro 22.1 million, Euro 9.2 million and Euro 5 million.

As for revenue, the main changes in consolidated gross operating profit (EBITDA) and operating profit (EBIT), as shown in the tables on business segment results, are attributable to the consolidation of RCS. Mention should be made that since RCS prepared the first end-of-month closure after the completion date of the transaction on 31 August 2016, the date of initial consolidation adopted is 1 September 2016. The income statement shown in the Interim Management Report at 30 September 2016 therefore includes the RCS results of September. Specifically, the consolidation of RCS brought an increase in production cost of approximately Euro 42.6 million, in personnel expense of approximately Euro 21.2 million, in amortization, depreciation, provisions and impairment losses of approximately Euro 5.6 million, and in costs for financial activities of approximately Euro 2.9 million.

As mentioned earlier, in 9M16 operating profit (EBIT) in the TV publishing segment (La7) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 4.2 million, due to the write-down of tangible and intangible assets made in 2013 in the purchase price allocation of the investment in La7. For the same reason, in 9M15, operating profit (EBIT) in the TV publishing segment (La7) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 7.9 million.

The main **consolidated income statement figures** in **3Q16** can be compared as follows with those of 3Q15:

(€ thousands)		30/09/2016 (Three months)		30/09/2015 (Three months)
	Current operations	Non-recurring items	Total	
Gross operating revenue	135,031	-	135,031	49,936
Advertising agency discounts	(9,788)	-	(9,788)	(4,111)
Net operating revenue	**125,243**	-	**125,243**	**45,825**
Change in inventory	(967)	-	(967)	57
Other revenue and income	3,589	-	3,589	2,714
Total revenue	**127,865**	-	**127,865**	**48,596**
Production cost	(76,876)	-	(76,876)	(32,234)
Personnel expense	(35,579)	-	(35,579)	(13,676)
Income (charges) on investments measured at equity	479	-	479	-
Non-recurring income and charges	-	(1,748)	(1,748)	-
Gross operating profit (EBITDA)	**15,889**	**(1,748)**	**14,141**	**2,686**
Amortization, depreciation, provisions and impairment losses	(8,027)	-	(8,027)	(2,379)
EBIT	**7,862**	**(1,748)**	**6,114**	**307**
Net financial income	(2,892)	-	(2,892)	121
Income (loss) on investments	-	-	-	-
Pre-tax profit	**4,970**	**(1,748)**	**3,222**	**428**
Income tax	(1,444)	481	(963)	716
Non-controlling interests	(1,270)	-	(1,270)	(4)
Profit from continuing operations attributable to the owners of the parent	**2,256**	**(1,267)**	**989**	**1,140**
Profit/ (loss) from discontinued operations attributable to the owners of the parent	-	-	-	-
Profit attributable to the owners of the parent	**2,256**	**(1,267)**	**989**	**1,140**

In **3Q16**, consolidated gross revenue amounted to approximately Euro 138.6 million (Euro 52.6 million in 3Q15). Consolidated gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro 15.9 million and Euro 7.9 million (Euro 2.7 million and Euro 0.3 million in 2015). Including non-recurring charges associated with the Offer, consolidated gross operating profit (EBITDA), operating profit (EBIT) and profit attributable to the owners of the parent came, respectively, to Euro 14.1 million, Euro 6.1 million and Euro 1 million.

As mentioned earlier for the nine month period at the same date of 30 September 2016, the main changes are attributable to the consolidation of the RCS results of September. Effects were also felt from the significant investment made in the July-September quarter in programming costs to enhance the quality of the summer schedule, which increased all-day audience figures in the quarter by approximately 8% and by approximately 10% in prime time (from 8:30 PM to 11:30 PM), accelerating in September (approximately +17.2% in the all-day share and +28% in prime time).

In 3Q15, operating profit (EBIT) in the TV publishing segment (La7) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 1.1 million, due to the write-down of tangible and intangible assets made in 2013 in the purchase price allocation of the investment. For the same reason, in 3Q15, operating profit (EBIT) in the TV publishing segment (La7) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 1.8 million.

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

(€ thousands)	**30/09/2016 (Nine months)**	**30/09/2016 (Quarter)**	**30/09/2015 (Nine months)**	**30/09/2015 (Quarter)**
Consolidated statement of comprehensive income				
Profit attributable to the owners of the parent	**5,031**	**989**	**6,600**	**1,140**
Other reclassifiable items of the comprehensive income statement				
Gains (losses) from the translation of financial statements denominated in foreign currencies	82	82		-
Gains (losses) on cash flow hedges	(35)	(35)		-
Reclassification to the income statement of gains (losses) on cash flow hedges	221	221		-
Tax effect	(51)	(51)		-
Other non-reclassifiable items of the comprehensive income statement				
Actuarial profit (loss) from defined benefit plans	(339)	-	477	-
Tax effect	81	-	(131)	-
Total statement of comprehensive income attributable to the owners of the parent	**4,990**	**1,206**	**6,946**	**1,140**

The Group’s performance can be read better by analyzing the 9M16 results by **main business segment** (magazine publishing Cairo Editore, advertising, TV publishing La7, network operator (Cairo Network), Il Trovatore and RCS) versus those of 9M15:

2016 (Nine months) (€ thousands)	Magazine Publi-shing	Adver-tising	TV publishing La7	RCS	Trovatore	Network operator (Cairo Network)	Non-recurring items and unlloca-ted	Intra-group and unalloca-ted	Total
Gross operating revenue	72,923	118,502	70,705	83,429	704	731	-	(82,515)	264,479
Advertising agency discounts	-	(16,950)	-	(5,514)	-	-	-	-	(22,464)
Net operating revenue	**72,923**	**101,552**	**70,705**	**77,915**	**704**	**731**	**-**	**(82,515)**	**242,015**
Change in inventory	(71)	-	-	(971)	-	-	-	-	(1,042)
Other income	1,889	472	5,175	-	2	73	-	-	7,611
Total revenue	**74,741**	**102,024**	**75,880**	**76,944**	**706**	**804**	**-**	**(82,515)**	**248,584**
Production cost	(48,487)	(95,163)	(51,824)	(42,649)	(575)	(776)	-	82,515	(156,959)
Personnel expense	(14,705)	(6,109)	(26,088)	(21,231)	(30)	(110)	-	-	(68,273)
Income (charges) on investments measured at equity	-	-	-	479	-	-	-	-	479
Income (non-recurring charges)	-	-	-	-	-		(1,748)	-	(1,748)
Gross operating profit (EBITDA)	**11,549**	**752**	**(2,032)**	**13,543**	**101**	**(82)**	**(1,748)**	**-**	**22,083**
Amortization, depreciation, provisions and impairment losses	(842)	(191)	(6,201)	(5,647)	-	(1)	-	-	(12,882)
EBIT	**10,707**	**561**	**(8,233)**	**7,896**	**101**	**(83)**	**(1,748)**	**-**	**9,201**
Income (loss) on investments	-	-	-	-				-	-
Net financial income	(7)	(69)	391	(2,893)	(1)	(1)	-	-	(2,580)
Pre-tax profit	**10,700**	**492**	**(7,842)**	**5,003**	**100**	**(84)**	**(1,748)**	**-**	**6,621**
Income tax	(3,663)	(421)	5,072	(1,765)	(36)	20	481	-	(312)
Non-controlling interests	-	-	-	(1,264)	(13)	-	-	-	(1,277)
Profit from continuing operations attributable to the owners of the parent	**7,037**	**71**	**(2,770)**	**1,974**	**51**	**(64)**	**(1,267)**	-	**5,032**
Profit / (loss) from discontinued operations	-	-	-	-	-	-	-	(1)	(1)
Profit attributable to the owners of the parent	**7,037**	**71**	**(2,770)**	**1,974**	**51**	**(64)**	**(1,267)**	**(1)**	**5,031**

2015 (Nine months) (€ thousands)	Magazine Publishing	Adver-tising	TV publishing La7	RCS	Trovatore	Network operator (Cairo Network)	Non-recurring items and unlloca-ted	Intra-group and unalloca-ted	Total
Gross operating revenue	71,252	115,757	69,896	-	662	-	-	(80,190)	177,377
Advertising agency discounts	-	(16,560)	-	-	-	-	-	-	(16,560)
Net operating revenue	**71,252**	**99,197**	**69,896**	**-**	**662**	**-**	**-**	**(80,190)**	**160,817**
Change in inventory	46	-	-	-	-	-	-	-	46
Other income	1,346	768	6,090	-	2	78	-	-	8,284
Total revenue	**72,644**	**99,965**	**75,986**	**-**	**664**	**78**	**-**	**(80,190)**	**169,147**
Production cost	(45,915)	(93,398)	(54,634)	-	(506)	(33)	-	80,190	(114,296)
Personnel expense	(14,273)	(5,240)	(24,457)	-	(57)	(73)	-	-	(44,100)
Income (charges) on investments measured at equity	-	-	-	-	-	-	-	-	-
Income (non-recurring charges)	-	-	-	-	-	-	-	-	-
Gross operating profit (EBITDA)	**12,456**	**1,327**	**(3,105)**	**-**	**101**	**(28)**	**-**	**-**	**10,751**
Amortization, depreciation, provisions and impairment losses	(784)	(592)	(4,575)	-	-	(1)	-	-	(5,952)
EBIT	**11,672**	**735**	**(7,680)**	**-**	**101**	**(29)**	**-**	**-**	**4,799**
Income (loss) on investments	-	-	-	-	-	-	-	-	-
Net financial income	(2)	75	443	-	4	-	-	-	520
Pre-tax profit	**11,670**	**810**	**(7,237)**	**-**	**105**	**(29)**	**-**	**-**	**5,319**
Income tax	(3,926)	(493)	5,743	-	(37)	8	-	-	1,295
Non-controlling interests		-	-	-	(14)	-	-	-	(14)
Profit from continuing operations attributable to the owners of the parent	**7,744**	**317**	**(1,494)**	**-**	**54**	**(21)**	**-**	**-**	**6,600**
Profit / (loss) from discontinued operations	-	-	-	-	-	-	-	-	-
Profit attributable to the owners of the parent	**7,744**	**317**	**(1,494)**	**-**	**54**	**(21)**	**-**	**-**	**6,600**

2016 (Three months) (€ thousands)	Magazine Publishing	Adver-tising	TV publishing La7	RCS	Trovatore	Network operator (Cairo Network)	Non-recurring items and unalloca-ted	Intra-group and unalloca-ted	Total
Gross operating revenue	26,284	29,778	15,925	83,429	208	261	-	(20,854)	135,031
Advertising agency discounts	-	(4,274)	-	(5,514)	-	-	-	-	(9,788)
Net operating revenue	**26,284**	**25,504**	**15,925**	**77,915**	**208**	**261**	**-**	**(20,854)**	**125,243**
Change in inventory	4	-	-	(971)	-	-	-	-	(967)
Other income	500	90	2,976	-	1	22	-	-	3,589
Total revenue	**26,788**	**25,594**	**18,901**	**76,944**	**209**	**283**	**-**	**(20,854)**	**127,865**
Production cost	(16,793)	(24,576)	(13,277)	(42,649)	(153)	(282)	-	20,854	(76,876)
Personnel expense	(4,734)	(1,869)	(7,703)	(21,231)	(7)	(35)	-	-	(35,579)
Income (charges) on investments measured at equity	-	-	-	479	-	-	-	-	479
Income (non-recurring charges)	-	-	-	-	-	-	(1,748)	-	(1,748)
Gross operating profit (EBITDA)	**5,261**	**(851)**	**(2,079)**	**13,543**	**49**	**(34)**	**(1,748)**	**-**	**14,141**
Amortization, depreciation, provisions and impairment losses	(273)	(67)	(2,039)	(5,647)	-	(1)	-	-	(8,027)
EBIT	**4,988**	**(918)**	**(4,118)**	**7,896**	**49**	**(35)**	**-**	**-**	**6,114**
Income (loss) on investments	-	-	-	-	-	-	-	-	-
Net financial income	1	(93)	93	(2,893)	-	-	-	-	(2,892)
Pre-tax profit	**4,989**	**(1,011)**	**(4,025)**	**5,003**	**49**	**(35)**	**-**	**-**	**3,222**
Income tax	(1,637)	304	1,661	(1,765)	(17)	10	481	-	(963)
Non-controlling interests	-	-	-	(1,264)	(6)	-	-	-	(1,270)
Profit from continuing operations attributable to the owners of the parent	**3,352**	**(707)**	**(2,364)**	**1,974**	**26**	**(25)**	**(1,267)**	**-**	**989**
Profit / (loss) from discontinued operations	-	-	-	-	-	-	-	-	-
Profit attributable to the owners of the parent	**3,352**	**(707)**	**(2,364)**	**1,974**	**26**	**(25)**	**(1,267)**	**-**	**989**

2015 (Three months) (€ thousands)	Magazine Publishing	Adver-tising	TV publishing La7	RCS	Trovatore	Network operator (Cairo Network)	Non-recurring items and unalloca-ted	Intra-group and unalloca-ted	Total
Gross operating revenue	25,247	28,450	15,989	-	206	-	-	(19,956)	49,936
Advertising agency discounts	-	(4,111)	-	-	-	-	-	-	(4,111)
Net operating revenue	**25,247**	**24,339**	**15,989**	**-**	**206**	**-**	**-**	**(19,956)**	**45,825**
Change in inventory	57	-	-	-	-	-	-	-	57
Other income	423	353	1,863	-	-	75	-	-	2,714
Total revenue	**25,727**	**24,692**	**17,852**	**-**	**206**	**75**	**-**	**(19,956)**	**48,596**
Production cost	(16,443)	(23,650)	(11,947)	-	(141)	(9)	-	19,956	(32,234)
Personnel expense	(4,529)	(1,609)	(7,490)	-	(16)	(32)	-	-	(13,676)
Income (charges) on investments measured at equity	-	-	-	-	-	-	-	-	-
Income (non-recurring charges)	-	-	-	-	-	-	-	-	-
Gross operating profit (EBITDA)	**4,755**	**(567)**	**(1,585)**	**-**	**49**	**34**	**-**	**-**	**2,686**
Amortization, depreciation, provisions and impairment losses	(302)	(265)	(1,812)	-	-	-	-	-	(2,379)
EBIT	**4,453**	**(832)**	**(3,397)**	**-**	**49**	**34**	**-**	**-**	**307**
Income (loss) on investments	-	-	-	-	-	-	-	-	-
Net financial income	3	13	105	-	-	-	-	-	121
Pre-tax profit	**4,456**	**(819)**	**(3,292)**	**-**	**49**	**34**	**-**	**-**	**428**
Income tax	(1,447)	210	1,993	-	(31)	(9)	-	-	716
Non-controlling interests		-	-	-	(4)	-	-	-	(4)
Profit from continuing operations attributable to the owners of the parent	**3,009**	**(609)**	**(1,299)**	**-**	**14**	**25**	**-**	**-**	**1,140**
Profit / (loss) from discontinued operations	-	-	-	-	-	-	-	-	-
Profit attributable to the owners of the parent	**3,009**	**(609)**	**(1,299)**	**-**	**14**	**25**	**-**	**-**	**1,140**

3. Consolidated statement of financial position

The main figures of the consolidated **statement of financial position** at 30 September 2016 can be analyzed versus the situation at 31 December 2015:

(€ thousands)	30/09/2016	31/12/2015
Statement of financial position		
Property, plant and equipment	115,576	3,080
Intangible assets	722,145	60,917
Financial assets	72,547	1,702
Deferred tax assets	133,001	4,186
Net current assets	(134,890)	(17,438)
Total assets	**908,380**	**52,447**
Non-current borrowings and provisions	185,872	41,973
(Net financial position)/Net debt	359,330	(105,776)
Equity attributable to the owners of the parent	328,437	116,196
Equity attributable to non-controlling interests	34,741	54
Total equity and liabilities	**908,380**	**52,447**

The main changes in the figures in the statement of financial position versus 31 December 2015 are attributable, to the acquisition of the control and subsequent consolidation of RCS.

Specifically, the acquisition of the control of RCS through the Offer resulted mainly in:

- an increase in equity as a result of the capital increase resolved by the General Meeting on 18 July 2016, which was performed in two tranches (22 July and 4 August 2016), in order to pay the share component of consideration to the RCS shareholders who had accepted the Offer. A total of no. 311.5 million RCS shares were tendered to the Offer, equal to 59.69% of the RCS share capital, for a total of no. 56 million Cairo Communication shares, in addition to Euro 77.9 million paid in cash. The capital increase was accounted following the application of IFRS 3 - *Business Combinations.*
- the acquisition of the controlling interest in RCS, the results of which were consolidated as of 1 September 2016.

In the context of the transaction aimed at acquiring the control of RCS, Cairo Communication entered into a revolving facility for a maximum amount of Euro 140 million, approximately Euro 78,2 million of which drawn down, to finance the payment of the cash component of the Offer and for general business purposes.

The subsequent consolidation of RCS, mainly resulted, in particular, in:

- an increase in intangible assets since, at such date, RCS's intangible assets amounted to approximately Euro 399 million. The consolidated balance sheet of RCS contains a significant set of intangible assets, which should be regularly subject to evaluation, in accordance with international accounting standards, in order to verify their recoverable carrying amount;

- the generation of additional intangible assets equal to the difference between the carrying amount of the investment and the consolidated pro rata equity of RCS at the date of the acquisition of control. At the date of preparing this Interim Management Report at 30 September 2016, the determination of the fair value of RCS assets and liabilities required in the application of the “acquisition method" under IFRS 3 is still in progress; the difference between the value of the investment in RCS and the consolidated pro rata equity of the RCS Group at the combination date has been provisionally booked to "intangible assets". The determination requirements under IFRS 3, once completed, may result in a different measurement of the assets and liabilities of the RCS Group at the date of the business combination, with resulting operating and financial effects, including the amortization of any assets with finite useful life from the date of combination, which may also be of a significant level. Further analysis is in progress with regard to the possible alternative accounting approach in consolidation (proportional or full approach);
- a deterioration of the net financial position of approximately Euro 382 million, equal to the financial debt of RCS at 30 September 2016;
- an increase in deferred tax assets attributable to RCS by approximately Euro 127 million;
- an increase in non-current borrowings and provisions by approximately Euro 150 million, attributable to staff benefits of approximately Euro 38.8 million, to provisions for risks and charges of Euro 54.1 million, and to the deferred tax provision of Euro 56.9 million;
- a deterioration of working capital at 30 September 2016 of approximately Euro 98 million.

As explained in the 2016 Half-Year Financial Report of Cairo Communication, to which reference is made for further details, the consolidation of RCS changed the profile of liquidity risks and currency and interest rate risks, introducing a risk profile associated with the measurement of intangible assets, and also changed the income statement and balance sheet structure of the Cairo Communication Group, post transaction.

Mention should be made that at their Meeting on 27 April 2016, the shareholders approved the distribution of a dividend of 0.20 Euro per share, inclusive of tax, with coupon detachment date on 9 May 2016, for a total of Euro 15.7 million.

In 2016, as part of the share buy-back plans, no treasury shares were sold or purchased. At 30 September 2016, 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.

4. Consolidated net financial position

The consolidated **net financial position** at 30 September 2016, versus the situation at 31 December 2015, can be summarized as follows:

Net financial debt at 30 September 2016	**Cairo Comm.**	**RCS**	**30/09/2016**	**31/12/2015**	**Change**
Cash and cash equivalents	118,050	15,311	133,361	125,776	7,585
Other current financial assets and financial receivables	-	899	899		899
Current financial payables	(5,000)	(49,020)	(54,020)	(5,000)	(49,020)
Current net financial position (net financial debt)	**113,050**	**(32,810)**	**80,240**	**120,776**	**(40,536)**
Non-current financial payables	(89,450)	(343,494)	(432,944)	(15,000)	(417,944)
Non-current financial liabilities from derivative instruments	-	(6,626)	(6,626)	-	(6,626)
Non-current net financial position (net financial debt)	**(89,450)**	**(350,120)**	**(439,570)**	**(15,000)**	**(424,570)**
Net financial position (net financial debt) continuing operations	**23,600**	**(382,930)**	**(359,330)**	**105,776**	**(465,106)**

The main changes in the consolidated net financial position versus 31 December 2015, as shown in the table above, are attributable to the acquisition of the control and subsequent consolidation of RCS. Main loan agreements in place:

Intesa San Paolo loan

In the context of the transaction aimed at acquiring the control of RCS, in July 2016, Cairo Communication concluded a revolving loan agreement with Intesa Sanpaolo for a maximum amount of Euro 140 million, approximately Euro 78,2 of which drawn down at 30 September

2016, to finance the payment of the cash component of the Offer and for more general business purposes.

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

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

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

RCS financial debt

The loan agreement concluded between RCS and the lenders provides for a maximum amount of Euro 352 million (divided into a term line for a maximum amount of Euro 252 million, and a revolving credit line for a maximum amount of Euro 100 million), due on 31 December 2019 and repayments for the term line as from March 2017.

Effective from 31 December 2016 and for the entire length of the loan, certain financial covenants are required to be met (debt, leverage ratio, namely, the net debt/EBITDA ratio, minimum equity), with reviews performed every year or every six months:

(I) NFP (Net Financial Position):

(a) in 2016: Euro 430 million; or Euro 410 million in case of sale of VEO Television S.A.,
(b) in 2017: Euro 385 million,
(c) in 2018: Euro 315 million.

The annual NFP referred to in points (a), (b) and (c) above will be deemed increased by a headroom of Euro 25 million at each subsequent six-month review date.

(II) Leverage Ratio (net debt/EBITDA ratio):

(a) in 2016: below 4.40x
(b) in 2017: below 3.45x;

(c) in 2018: below 2.30x.

(III) Minimum Equity: Euro 95.2 million.

Under the loan agreement, in the event of a breach of the applicable financial covenants, namely the occurrence of additional qualified events (such as, *inter alia*, failure to pay the amounts due under the loan agreement, cross default relating to the Group's financial debt or the taking of enforcement action by creditors for amounts above certain thresholds, breach of the obligations under the loan agreement, change of control or the occurrence of events resulting in significant adverse effects as defined therein), lenders are entitled to demand repayment of the credit lines granted.

Breach of certain financial covenants triggers an equity cure under specific, contractually defined terms, conditions and limitations.

Cairo Network financial debt

The bank loan (Euro 16,2 million at 30 September 2016) granted by Unicredit S.p.A. and used by Cairo Network to pay part of the rights of use of the TV frequencies, is secured by a guarantee issued by the parent Cairo Communication. The loan agreement contains a number of financial covenants checked annually on the Cairo Communication Group: debt cover (i.e., net financial debt/EBITDA ratio), required to be less than or equal to 1.75, and leverage (net financial debt/equity), required to be less than or equal to 1. The loan agreement also contains a number of commitments. Breach of the commitments and/or financial covenants may result in termination of the loan agreement.

The current financial covenants contained in the loan agreement, following the consolidation of the RCS Group in Cairo Communication, are expected not to be met at 31 December 2016. Accordingly, Cairo Communication will need to renegotiate the terms of the loan with the lender or make an early repayment.

5. Revenue

Gross operating revenue in 9M16, split up by main business segment, can be analyzed as follows versus the amounts of 9M15:

Gross revenue (€ thousands)	Quarter at 30/09/2016 (Nine months)							
	Magazine publishing	**Advertising**	**TV publishing (La7)**	**RCS**	**Trovatore**	**Network operator (Cairo Network)**	**Intra-group eliminations and unallocated**	**Total**
Magazine over-the-counter sales	56,436	-	-	-	-	-	-	56,436
Print media advertising	15,149	20,060	-	-	-	-	(14,978)	20,231
TV advertising	-	96,029	68,332	-	-	-	(65,758)	98,603
Stadium signage	-	1,873		-	-	-		1,873
Internet advertising	-	88	886	-	-	-	(2)	972
Revenue from concession of programming schedule spaces	-	-	711	-	-	-	-	711
Other TV revenue	-	-	776	-	-	-	-	776
Subscriptions	2,085	-	-	-	-	-	-	2,085
Books and catalogues	394	-	-	-	-	-	-	394
Network services	-	-	-	-	-	731	(731)	-
Other revenue	28	452	-	-	704	-	(1,046)	138
RCS revenue	-	-	-	83,946	-	-	-	83,946
VAT relating to publications	(1,169)	-	-	(517)	-	-	-	(1,686)
Total gross operating revenue	**72,923**	**118,502**	**70,705**	**83,429**	**704**	**731**	**(82,515)**	**264,479**
Other revenue	1,889	472	5,175	-	2	73	-	7,611
Total revenue	**74,812**	**118,974**	**75,880**	**83,429**	**706**	**804**	**(82,515)**	**272,090**

Gross revenue (€ thousands)	**Quarter at 30/09/2015 (Nine months)**							
	Magazine publishing	**Advertising**	**TV publishing (La7)**	**RCS**	**Trovatore**	**Network operator (Cairo Network)**	**Intra-group eliminations and unallocated**	**Total**
Magazine over-the-counter sales	55,136	-	-		-	-	-	55,136
Print media advertising	14,592	19,231	-		-	-	(14,417)	19,406
TV advertising	-	93,408	67,961		-	-	(64,425)	96,944
Stadium signage	-	2,084	-		-	-	-	2,084
Internet advertising	-	583	329		408	-	(717)	603
Revenue from concession of programming schedule spaces	-	-	818		-	-	-	818
Other TV revenue	-	-	788		-	-	-	788
Subscriptions	2,141	-	-		-	-	-	2,141
Books and catalogues	463	-	-		-	-	-	463
Network services	-	-	-		-	-	-	-
Other revenue	2	451	-		254	-	(631)	76
RCS revenue	-	-	-		-	-	-	-
VAT relating to publications	(1,082)	-	-		-	-	-	(1,082)
Total gross operating revenue	**71,252**	**115,757**	**69,896**		**662**	**-**	**(80,190)**	**177,377**
Other revenue	1,346	768	6,090		2	78	-	8,284
Total revenue	**72,598**	**116,525**	**75,986**		**664**	**78**	**(80,190)**	**185,661**

Gross revenue (€ thousands)	Quarter at 30/09/2016 (Three months)							
	Magazine publishing	**Advertising**	**TV publishing (La7)**	**RCS**	**Trovatore**	**Network operator (Cairo Network)**	**Intra-group eliminations and unallocated**	**Total**
Magazine over-the-counter sales	21,098	-	-	-	-	-	-	21,098
Print media advertising	4,900	6,611	-	-	-	-	(4,833)	6,678
TV advertising	-	22,556	15,453	-	-	-	(15,456)	22,553
Stadium signage	-	437	-	-	-	-	-	437
Internet advertising	-	23	163	-	-	-	(1)	185
Revenue from concession of programming schedule spaces	-	-	109	-	-	-	-	109
Other TV revenue	-	-	200	-	-	-	-	200
Subscriptions	693	-	-	-	-	-	-	693
Books and catalogues	105	-	-	-	-		-	105
Network services	-	-	-	-	-	261	(261)	-
Other revenue	12	151	-	-	208	-	(303)	68
RCS revenue	-	-	-	83,946	-	-	-	83,946
VAT relating to publications	(524)	-	-	(517)	-	-	-	(1,041)
Total gross operating revenue	**26,284**	**29,778**	**15,925**	**83,429**	**208**	**261**	**(20,854)**	**135,031**
Other revenue	500	90	2,976	-	1	22	-	3,589
Total revenue	**26,784**	**29,868**	**18,901**	**83,429**	**209**	**283**	**(20,854)**	**138,620**

Gross revenue (€ thousands)	Quarter at 30/09/2015 (Three months)							
	Magazine publishing	**Advertising**	**TV publishing (La7)**	**RCS**	**Trovatore**	**Network operator (Cairo Network)**	**Intra-group eliminations and unallocated**	**Total**
Magazine over-the-counter sales	19,968	-	-	-	-	-	-	19,968
Print media advertising	4,885	6,425	-	-	-	-	(4,853)	6,457
TV advertising	-	21,273	15,422	-	-	-	(14,668)	22,027
Stadium signage	-	393	-	-	-	-	-	393
Internet advertising	-	208	116	-	122	-	(226)	220
Revenue from concession of programming schedule spaces	-	-	224	-	-	-	-	224
Other TV revenue	-	-	227	-	-	-	-	227
Subscriptions	707	-	-	-	-	-	-	707
Books and catalogues	138	-	-	-	-	-	-	138
Network services	-	-	-	-	-	-	-	-
Other revenue		151	-	-	84	-	(209)	26
RCS revenue	-	-	-	-	-	-	-	-
VAT relating to publications	(451)	-	-	-	-	-	-	(451)
Total gross operating revenue	**25,247**	**28,450**	**15,989**	**-**	**206**	**-**	**(19,956)**	**49,936**
Other revenue	423	353	1,863	-	-	75	-	2,714
Total revenue	**25,670**	**28,803**	**17,852**	**-**	**206**	**75**	**(19,956)**	**52,650**

PRINT MEDIA PUBLISHING

CAIRO EDITORE - CAIRO PUBLISHING

In 9M16, Cairo Editore strengthened the results of its publications and worked on improving the levels of efficiency reached in containing production, publishing and distribution costs. Specifically:

- it continued its strategy of continuous expansion and enhancement of the product portfolio, in order to take advantage of market segments offering greater potential, with the launch of the fortnightly magazine “Nuovo e Nuovo TV Cucina” in January and of “Enigmistica Più” in April;
- it continued to report highly positive operating results, despite incurring total launch costs of Euro 1.2 million in 9M16;
- the period under review basically confirmed the excellent circulation results, with revenue reaching Euro 56.4 million (Euro 55.1 million in 9M15);
- Group gross advertising revenue amounted to Euro 19.7 million, up by 4% versus 9M15 (Euro 18.9 million).

On 26 January 2016, the Group launched "Nuovo e Nuovo TV Cucina", the fortnightly magazine dedicated to good food for every cooking connoisseur, presenting easy, affordable and successful recipes, sold as an option with the two weeklies “Nuovo” and “Nuovo TV”, which reported average of approximately 121 thousand copies in the January-August eight-month period of 2016 (*ADS data)*.

On 20 April, the Group launched “Enigmistica Più”, the weekly packed with games and other diversions, which marks the landing of the publishing house in the interesting sector of puzzle games ; in the first 24 issues, it sold an average of approximately 162 thousand copies.

In 9M16, gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro 11.5 million and approximately Euro 10.7 million (Euro 12.4 million and Euro 11.7 million in 9M15), despite incurring launch costs for the new “Enigmistica Più” and for the fortnightly “Nuovo e Nuovo TV Cucina” of approximately Euro 1.1 million and approximately Euro 0.1 million, respectively.

The Group weeklies confirmed the excellent circulation results achieved, with an average ADS circulation in the January-August eight-month period of 2016 of 499,661 copies for “Settimanale DIPIU”, 288,678 copies for “DIPIU’ TV”, 148,225 copies for “Settimanale DIPIU’ e DIPIU’TV Cucina”, 189,373 copies for “Diva e Donna”, 226,850 copies for “Settimanale Nuovo”, 125,677 copies for “F”, 126,398 copies for “TVMia” and 96,855 copies for “Settimanale Giallo”, 117,629 copies for “NuovoTV” and 120,932 copies for “Nuovo e Nuovo TV Cucina” reaching a total of about 1.9 million average copies sold, and making the Group the leading publisher in copies of weeklies sold at newsstands, with a market share of approximately 30%. Including the average sales of titles out of the ADS survey - the average sales of the first 24 issues of “Enigmistica Più” (approximately 162 thousand) - average copies sold increase to over 2 million.

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

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

In 4Q16, Cairo Editore will continue to strengthen the results of the titles launched and pursue opportunities to optimize production, publishing and distribution costs, with the revision and reorganization of printing processes, the optimization of bordereau costs, and the revision of a number of other corporate processes.

ADVERTISING

Looking at the advertising segment, in 9M16 the Cairo Communication Group continued to operate as advertising broker - with its subsidiary Cairo Pubblicità - selling space in the print media for Cairo Editore (“For Men Magazine”, “Natural Style”, “Settimanale DIPIU’”, “DIPIU’

TV” and weekly supplements “Settimanale DIPIU’ e DIPIU’TV Cucina” and “Settimanale DIPIU’ e DIPIU’TV Stellare”, “Diva e Donna”, “TV Mia”, “Settimanale Nuovo”, “F”, “Settimanale Giallo”, “Nuovo TV”, “Nuovo e Nuovo TV Cucina” e “Enigmistica Più”), the Editoriale Giorgio Mondadori division (“Bell’Italia”, “Bell’Europa”, “In Viaggio”, “Airone”, “Gardenia”, “Arte” and “Antiquariato”) and for Editoriale Genesis (“Prima Comunicazione” and “Uomini e Comunicazione”), for the sale of advertising space on TV for La7 and La7d, and for Turner Broadcasting (Cartoon Network, Boomerang, CNN), on the Internet (Cartoon Network.it) and for the sale of stadium signage and space at the Olimpico in Turin for Torino FC.

In 9M16, total gross advertising revenue, which includes TV advertising revenue invoiced directly by La7 (Euro 3.2 million), came to approximately Euro 121.7 million (Euro 119.8 million in 2015). Gross advertising revenue on La7 and La7d channels amounted to Euro 97.6 million, up by approximately 2% versus 9M15 (Euro 96.1 million). Group gross advertising revenue on Group titles amounted to Euro 19.7 million, up by 4% versus 9M15 (Euro 18.9 million). Based on the backlog as of November 14th 2016, it is possible to foresee advertising sales on Cairo Editore publications for the quarter October-December 2016 up more than 15% versus the same period of 2015 (Euro 7,2 million).

Gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 0.7 million and Euro 0.6 million (Euro 1.3 million and Euro 0.7 million in 9M15).

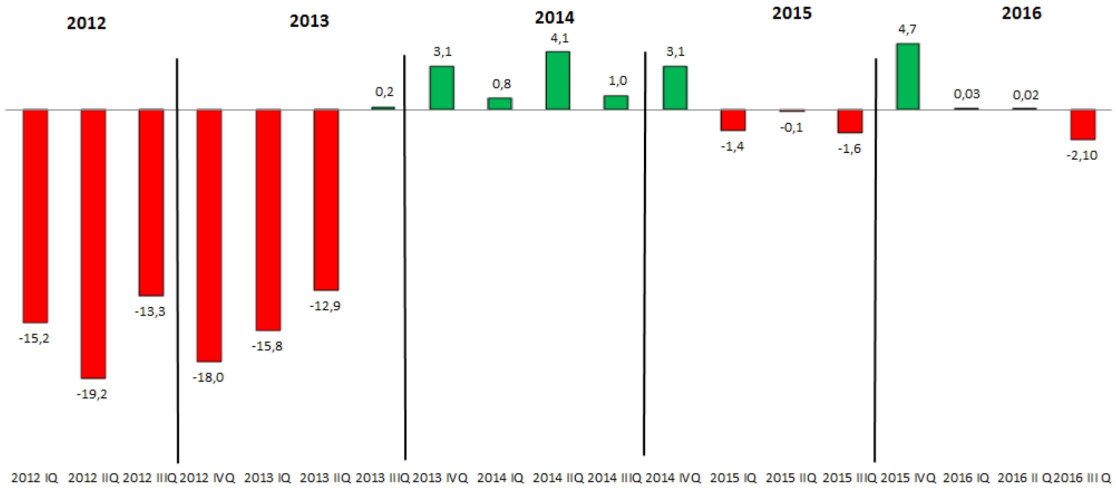
TV PUBLISHING (La7)

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), as in 2014 and 2015, when the results of the cost rationalization measures implemented were strengthened.

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



In 9M16, the TV publishing segment (La7) achieved a negative gross operating profit (EBITDA) of approximately Euro 2 million (versus a negative Euro 3.1 million in 9M15). The figure was impacted by the significant investment made in the July-September quarter in programming costs to enhance the quality of the summer schedule, which increased all-day audience figures in the quarter by approximately 8% and by approximately 10% in prime time (from 8:30 PM to 11:30 PM) The growth trend in audience figures continued in October. There is usually a certain time gap between audience trends and advertising sales results.

In 9M16, advertising sales on La7 and La7d channels grew by approximately 2% versus 9M15. Operating profit (EBIT) came to approximately Euro -8.2 million and benefited in the consolidated financial statements from lower amortization and depreciation of Euro 4.2 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 9M15, gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro -3.1 million and Euro -7.7 million. Operating profit (EBIT) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 7.9 million.

In 9M16, La7's average all-day share was 2.99% and 3.55% in prime time (from 8:30 PM to 11:30 PM), with a high-quality target audience. La7d's share was 0.58% (0.61% in prime time). The audience figures of the channel's news and discussion programmes - such as the 8 PM newscast (5.3% from Monday to Friday), "Otto e mezzo" (5.5%), "Piazza Pulita" (3.6%), "Crozza nel Paese delle Meraviglie" (7%), "Coffee Break" (4.2%), "Omnibus" (3.6%), "La Gabbia" (3.1%), "L'aria che tira" (5%), "Bersaglio Mobile" (3.4%), "Di martedì" (5.9%), "in Onda" (4.2%) and the new "Eccezionale Veramente" (3.1%) - were positive.

Specifically, with the enhancement of the summer schedule in July and August 2016, the La7 network (La7 and La7d) achieved the best results in the last three years, with audience figures increasing in all time slots (+5.3% versus 9M15), accelerating in September (approximately +17.2% in the all-day share and +28% in prime time). In the July-September quarter all-day audience figures of the network (La7 and La7d) increased by approximately 8% and such a positive trend continues in October (+6%).

RCS

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

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

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

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

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

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

RCS also organizes, through RCS Sport, major world sporting events (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 has generated negative results over the past few years, and an operational restructuring process is currently underway (aimed at restoring profitability). In the Interim Management Report at 30 September 2016 approved on 9 November 2016, the RCS directors note how they have overcome the significant uncertainty disclosed in the 2015 Annual Report, which could have cast strong doubts on the Group's ability to continue operating as a going concern. A result achieved with the renegotiation of the main terms and conditions of the loan agreement in place regarding the long-term debt lines.

Since RCS prepared the first end-of-month closure after the completion date of the transaction on 31 August 2016, the date of initial consolidation adopted is 1 September 2016. The income statement shown in the Interim Management Report at 30 September 2016 therefore includes the RCS results of September.

In September 2016, RCS achieved consolidated net revenue of approximately Euro 77.9 million, down by 12.5%[1] versus September 2015. Specifically, in September, net consolidated revenue is ascribable to publishing revenue of Euro 30.4 million, to advertising revenue of Euro 38.3 million, and to other revenue of Euro 9.1 million. Other revenue is mainly ascribable to the events organized by RCS Sport and Last Lap and to Veo TV revenue.

In September 2016, EBITDA before non-recurring charges amounted to Euro 13.5 million, improving by Euro 1.4 million[2] versus September 2015. The result in September felt no effects from non-recurring charges. Operating profit amounted to Euro 7.9 million, while profit attributable to the owners of the parent came to approximately Euro 2 million, net of non-controlling interests of approximately Euro 1.3 million.

Details on the RCS performance in 9M16 are found in the Interim Management Report at 30 September 2016, approved by the board of directors of the Company on 9 November 2016.

Specifically, in a persistently challenging market marked by uncertainty, RCS Group results in 9M16 outperformed expectations. The increase in EBITDA, as defined by RCS[3], before non-recurring income and charges in 9M16 (+32.3 million) outperformed RCS Group expectations for the full year, thanks mainly to the strong commitment to cost reduction (51.7 million from efficiency gains achieved in the first nine months versus the prior year).

In brief, looking at 9M16, RCS achieved consolidated net revenue of Euro 709.4 million, down by 4.5% versus 9M15, Euro 33 million from publishing revenue and Euro 9.5 million from advertising revenue, while other revenue was up by Euro 8.9 million. In 9M16, EBITDA, as

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[1] Based on RCS operating figures

[2] Based on RCS operating figures

[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 "Valuation principles and criteria adopted in preparing the Interim Management Report at 30 September 2016"

defined by RCS, came to Euro 40.4 million, improving by Euro 34.5 million versus 9M15. The result in 9M16 was impacted by net non-recurring charges of approximately Euro 9.6 million.

Operating profit improved by Euro 73.2 million to a negative Euro 0.8 million versus a negative Euro 74 million in 9M15. Mention should be made of the impairment losses recognized in 9M15 from Unidad Editorial titles (Euro 35.9 million). The net result in 9M16 improved by Euro 109 million to a negative Euro 17.4 million versus 9M15, reflecting the abovementioned trends.

Cairo Communication intends to implement its own plan to relaunch the RCS Group, following two strategic guidelines:

- achievement of maximum efficiency;
- accomplishment of full potential for revenue growth, in a market marked by declining revenue in traditional publishing.

The achievement of competitive performance requires, in fact, improved operational efficiency through structural strategies aimed at:

- rationalizing the industrial cost structure of the RCS Group;
- achieving synergies created through collaboration with Cairo Communication.

NETWORK OPERATOR (CAIRO NETWORK)

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

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

IL TROVATORE

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

6. Income statement figures of the Parent

The main **income statement figures of Cairo Communication S.p.A.** in 9M16 and 3Q16 can be compared with those of the same periods in 2015:

(€ thousands)	**30/09/2016 (Nine months)**			**30/09/2015 (Nine months)**
	Current operations	**Non-recurring items**	**Total**	
Gross operating revenue	72,893	-	72,893	72,269
Advertising agency discounts	-	-	-	-
Net operating revenue	**72,893**	**-**	**72,893**	**72,269**
Other revenue and income	198	-	198	415
Total revenue	**73,091**	**-**	**73,091**	**72,684**
Production cost	(70,111)	(1,748)	(71,859)	(69,153)
Personnel expense	(2,160)	-	(2,160)	(2,172)
Gross operating profit (EBITDA)	**820**	**(1,748)**	**(928)**	**1,359**
Amortization, depreciation, provisions and impairment losses	(184)	-	(184)	(183)
EBIT	**636**	**(1,748)**	**(1,112)**	**1,176**
Net financial income	(100)	-	(100)	24
Income (loss) on investments	8,222	-	8,222	7,465
Pre-tax profit	**8,758**	**(1,748)**	**7,010**	**8,665**
Income tax	(366)	481	115	(531)
Profit from continuing operations	**8,392**	**(1,267)**	**7,125**	**8,134**
Loss from discontinued operations	(1)	-	(1)	-
Profit	**8,391**	**(1,267)**	**7,124**	**8,134**

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

- gross operating revenue was approximately Euro 73 million (Euro 72.7 million in 9M15);
- looking at current operations, gross operating profit (EBITDA) was approximately Euro 0.8 million (Euro 1.4 million in 9M15);
- operating profit (EBIT) was approximately Euro 0.6 million (Euro 1.2 million in 9M15) while profit came to approximately Euro 8.4 million (Euro 8.1 million in 9M15).

As mentioned earlier, non-recurring charges are attributable to part of the costs incurred for the Offer. A further part of the charges was deducted from the share premium reserve.

"Income (loss) on investments" includes the dividends approved by the subsidiary Cairo Editore, amounting to Euro 8.2 million. In 2015, the item included the dividends approved by Cairo Editore, amounting to Euro 7.5 million.

(€ thousands)		30/09/2016 (Three months)		30/09/2015 (Three months)
	Current operations	**Non-recurring items**	**Total**	
Gross operating revenue	17,444	-	17,444	16,801
Advertising agency discounts	-	-	-	-
Net operating revenue	**17,444**	-	**17,444**	**16,801**
Other revenue and income	66	-	66	151
Total revenue	**17,510**	-	**17,510**	**16,952**
Production cost	(16,943)	(1,748)	(18,691)	(16,151)
Personnel expense	(669)	-	(669)	(673)
Gross operating profit (EBITDA)	**(102)**	**(1,748)**	**(1,850)**	**128**
Amortization, depreciation, provisions and impairment losses	(64)	-	(64)	(62)
EBIT	**(166)**	**(1,748)**	**(1,914)**	**66**
Net financial income	(94)	-	(94)	4
Income (loss) on investments	-	-	-	-
Pre-tax profit	**(260)**	**(1,748)**	**(2,008)**	**70**
Income tax	50	481	531	(39)
Profit from continuing operations	**(210)**	**(1,267)**	**(1,477)**	**31**
Loss from discontinued operations	-	-	-	-
Profit	**(210)**	**(1,267)**	**(1,477)**	**31**

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

(€ thousands)	**30/09/2016 (Nine months)**	**30/09/2016 (Quarter)**	**30/09/2015 (Nine months)**	**30/09/2015 (Quarter)**
Statement of comprehensive income of the Parent				
Profit	**7,124**	**(1,477)**	**8,134**	**31**
Other non-reclassifiable items of the comprehensive income statement				
Actuarial profit (loss) from defined benefit plans	26	-	96	-
Tax effect	(19)	-	(26)	-
Total comprehensive income	**7,131**	**(1,477)**	**8,204**	**31**

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

The main figures of the **statement of financial position** of Cairo Communication S.p.A. at 30 September 2016 can be analyzed versus the situation at 31 December 2015:

(€ thousands)	**30/09/2016**	**31/12/2015**
Statement of financial position		
Property, plant and equipment	462	368
Intangible assets	248	295
Financial assets	340,905	31,990
Net current assets	(13,729)	3,908
Total assets	**327,886**	**36,562**
Non-current borrowings and provisions	1,300	1,452
(Net financial position)/Net debt	68,095	(9,039)
Equity	258,491	44,149
Total equity and liabilities	**327,886**	**36,562**

As mentioned earlier, the main changes in the figures in the statement of financial position versus 31 December 2015 are attributable to the acquisition of the control of RCS.

Mention should be made that at their Meeting on 27 April 2016, the shareholders approved the distribution of a dividend of 0.20 Euro per share, inclusive of tax, with coupon detachment date on 9 May 2016, for a total of Euro 15.7 million.

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

The **net financial position** of the Parent at 30 September 2016, versus the situation at 31 December 2015, is summarized as follows:

(€ thousands)	**30/09/2016**	**31/12/2015**	**Change**
Liquid funds	10,105	9,039	1,066
Current financial assets	-	-	-
Non-current financial payables	(78,200)	-	(78,200)
Total	**(68,095)**	**9,039**	**(77,134)**

9. Transactions with parents, subsidiaries and associates

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

In the first nine months of 2016, the relations and transactions with the parent U.T. Communications and with its subsidiaries can be analyzed as follows:

- the concession contract between Cairo Pubblicità and Torino FC S.p.A. (a subsidiary of U.T. Communications) for the sale of advertising space at the Olimpico football pitch and promotional sponsorship packages. This contract resulted in the payment in 2016 of Euro 1.4 million to the concession holder against revenue of Euro 1.7 million net of agency discounts. Cairo Pubblicità earned further commissions of Euro 51 thousand. As part of the agreement, Cairo Pubblicità also purchased football tickets worth approximately Euro 46 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;

As a result of the Offer, in 2016 UT Communications, which currently holds a 43.1% interest in Cairo Communication (while Urbano Cairo directly holds a 7.2% interest, making a total of 50.3%), lost control by operation of law over Cairo Communication, thus terminating the tax consolidation scheme under UT Communications. Cairo Communication has therefore opted to participate in the tax consolidation scheme as from 2016 together with its subsidiaries Cairo Editore, Cairo Pubblicità, Diellesei in liquidation, Cairo Publishing, La7 and Cairo Network.
The transactions with RCS MediaGroup and its subsidiaries in 9M16 include revenue of Euro 0.4 million and the same amount of costs, and refer mainly to the sale and purchase of advertising space. Considering September alone, revenue and costs came to Euro 0.1 million.

10. Events occurring after 3Q16 and business outlook

On 14 November 2016, the Board replaced the independent director Stefania Petruccioli, who had tendered her resignation on 31 August 2016, by co-opting Paola Mignani, and assessed the existence of the independence requirements set out in the Consolidated Finance Law and in the Corporate Governance Code for Listed Companies. The Board also appointed Paola Mignani as member of the Related Party Committee and Mauro Sala as member of the Compensation Committee.

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

- pursue the development of its traditional segments (magazine publishing Cairo Editore and advertising sales), also continuing, in the publishing segment, its strategy aimed at taking advantage of market segments offering greater potential, consolidating and developing the results of the new title “Enigmistica Più” launched in April, a weekly packed with games and other diversions, which marks the landing of Cairo Editore in the interesting and high-potential sector of puzzle games; in these segments, despite the economic and competitive backdrop, given the high quality of the publications and of the media under concession, the Group considers it a feasible target to continue to achieve positive operating results;

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

Regarding RCS, the Group will engage in the implementation of its integration project, aimed at accelerating the operational restructuring of RCS by exploiting possible synergies and pursuing the turnaround of the business, through the achievement of the maximum efficiency and the realization of the full potential of revenues.

In the Interim Management Report at 30 September 2016 approved on 9 November 2016, the RCS directors confirm that, in the absence of unpredictable events at this time, the targets set for 2016 (EBITDA before non-recurring charges of approximately Euro 100 million and profit basically at breakeven) can be considered achievable.

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 no. 58 of 24 February 1998 (T.U.F.)

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

Financial Reporting Manager

Marco Pompignoli