CAIRO COMMUNICATION

# Interim Management Report
# at 31 December 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** | CEO |
| **Laura Maria Cairo** | Director |
| **Roberto Cairo** | Director |
| **Marco Janni** | Director |
| **Antonio Magnocavallo** | Director |
| **Stefania Petruccioli** | Director |
| **Marco Pompignoli** | Director |
| **Roberto Rezzonico** | Director |
| **Mauro Sala** | Director |

**Control and Risk Committee**

| | |
|---|---|
| **Roberto Rezzonico** | Director |
| **Mauro Sala** | Director |
| **Antonio Magnocavallo** | Director |

**Remuneration Committee**

| | |
|---|---|
| **Antonio Magnocavallo** | Director |
| **Roberto Rezzonico** | Director |
| **Stefania Petruccioli** | Director |

**Related Party Committee**

| | |
|---|---|
| **Marco Janni** | Director |
| **Mauro Sala** | Director |
| **Stefania Petruccioli** | Director |

**Board of Statutory Auditors**

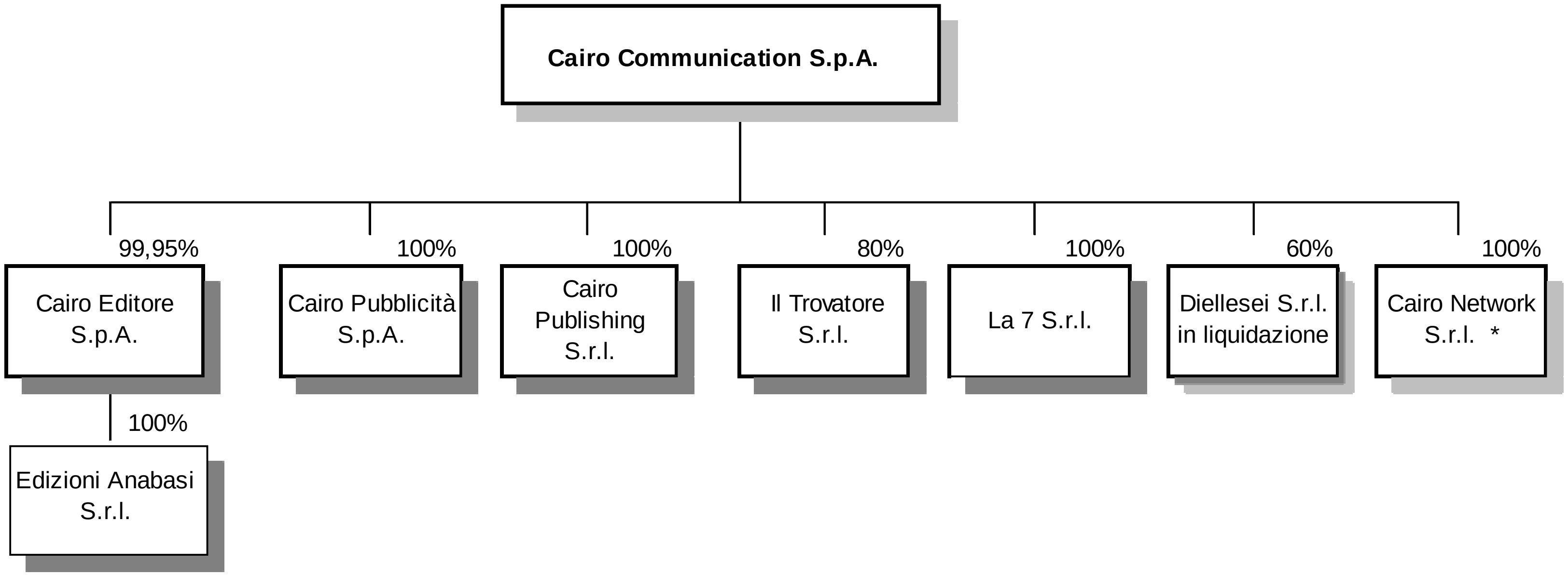
| | |
|---|---|
| **Marco Moroni** | Chairman |
| **Marco Giuliani** | Standing auditor |
| **Maria Pia Maspes** | Standing auditor |
| **Emilio Fano** | Alternate auditor |
| **Enrico Tamborini** | Alternate auditor |

**Audit Firm**

**KPMG S.p.A.**

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

## The Group at 31 December 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 December 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 4Q14 and in 2014 are shown versus the corresponding periods of 2013. 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 December 2014, as for those at 31 December 2013, have been prepared net of tax and tax effects.

In 2014, the subsidiary Cairo Network S.r.l. (former Cairo Sport S.r.l.) was consolidated. Its financial statements had not been previously consolidated, as the company was not significant because it was not operational. There were no other changes to the scope of consolidation from the consolidated financial statements for the year ended 31 December 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 2014, 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, operated 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, TG.La7.it) publisher.

In 2014, the general economic and financial context, marked by a high degree of uncertainty, continued to report negative effects. To date, there remains uncertainty over the period required for a return to normal market conditions.

Based on AC Nielsen figures, in 2014 advertising investments in Italy amounted to approximately Euro 6.2 billion, down 2.5% versus 2013.

The analysis by media shows that in 2014:

- the magazine advertising market dropped by 6.5% versus 2013, when it had lost 23.9% versus 2012,
- the TV advertising market basically confirmed (-0.5%) the amounts of 2013, when it had, instead, shed 10% versus 2012.

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

Despite this backdrop, in 2014 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, succeeding in achieving also in 2014 a positive gross operating profit (EBITDA) of Euro 9 million, while in the January December twelve-month period of 2013 (when La7 in the first four months had not been included yet in the scope of consolidation of the Cairo Communication Group), gross operating loss of La7 had amounted to Euro 25.4 million;

- 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 context and relevant market trend;
- took part with the subsidiary Cairo Network in the tender procedure opened by the Ministry of Economic Development for the assignment of rights to use TV frequencies for digital terrestrial broadcasting systems, submitting its binding bid and winning the rights to use a lot of frequencies ("Mux") for a period of 20 years.

To provide a better understanding of the figures for comparative purposes, it should be noted that the 2013 income statement included the results of La7 S.r.l., which was consolidated on 1 May 2013, with regard only to the May-December eight-month period of 2013.

In 2014, consolidated gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 28.2 million and Euro 22.8 million, growing by 5.8% and 8.4% versus the same results of current operations in 2013 (Euro 26.7 million and Euro 21.1 million). Profit attributable to the owners of the parent came to approximately Euro 23.8 million, increasing sharply by about 25.1% versus the result from current operations in 2013 (Euro 19 million). Profit in 2013 (Euro 74.2 million) had benefited from the recognition in the income statement of "non-recurring income from the acquisition of La7", amounting to Euro 57.1 million.

Specifically, in 2014:

- in the **TV publishing segment (La7)**, the Group worked on strengthening the results of the rationalization and cost-curbing measures implemented in 2013. Gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro 9 million and Euro 6.2 million. Operating profit (EBIT) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 18.2 million, due to the write-down of tangible and intangible assets made in 2013 in the purchase price allocation of the investment. In the January-December twelve-month period of 2013 - when La7 had not been included yet for the entire period in the scope of consolidation of the Cairo Communication Group - gross operating loss had amounted to approximately Euro 25.4 million.

In 2014, La7's average all-day share was 3.25% and 3.84% in prime time (from 8:30 PM to 11:30 PM), with a high-quality target audience. La7d's share maintained its level at 0.5%. The results of the channel's news and discussion programmes - such as the 8 PM newscast (5.7%), "Otto e mezzo" (5.4%), "Piazza Pulita" (4.8%), "Crozza nel Paese delle Meraviglie" (8%) "Servizio Pubblico" (7.3%), "Anno Uno" (5.5%) "Le invasioni Barbariche" (4.1%), "Coffee Break" (4.9%), "Omnibus" (3.7%), "La Gabbia" (3.4%), "L'aria che tira" (6%), "Bersaglio Mobile" (5%), and "Di martedì" (4.4%) - were positive;

- in the **magazine publishing segment**, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 13.8 million and Euro 12.5 million, up 11.3% and 13.2% versus 2013 (Euro 12.4 million and Euro 11.1 million). The period under review confirmed the excellent circulation results, with revenue at Euro 73.4 million (Euro 74.8 million in 2013). Regarding weeklies, with approximately 1.9 million average copies sold in the January-November eleven-month period of 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 5.3 million and Euro 3.9 million (Euro 10.6 million and Euro 8 million in 2013). In 2014, gross advertising sales on La7 and La7d amounted to Euro 152.9 million (Euro 157.5 million in 2013).

On 12 April 2014, the subsidiary Cairo Network S.r.l. (former Cairo Sport S.r.l.) applied for admission to bid in the auction opened by the Ministry of Economic Development for the awarding of the so-called L3 Lot, put up for tender with a starting price of Euro 31.6 million. This lot includes the granting of rights to use - for a period of 20 years - the 2-SFN multiplex on channels 25 and 59 ("Mux"). The L3 Lot frequencies have an estimated nominal coverage of 96.6% of the population. On 15 May 2014, the Ministry of Economic Development announced the admission of Cairo Network to the tender. On 13 June 2014, the Company submitted its binding bid and won the rights. The award was announced on 26 June 2014. On 25 July 2014, Cairo Network paid the amount offered in its bid (Euro 31.6 million), using own funds of Euro 6.6 million (arising from a capital increase of Euro 5.5 million and a shareholder loan of Euro 1.1 million) and by means of a bank loan of Euro 25 million granted by Unicredit S.p.A.. The loan is secured by a guarantee issued by the parent Cairo Communication, and calls for the payment of an interest rate equal to the 3-month Euribor plus 225 basis points and certain constraints (negative pledges) and commitments (covenants) on the part of the company, which are typical of these transactions.

On 31 July 2014, the Ministry of Economic Development issued the rights of use.

In January 2015, Cairo Network and EI Towers S.p.A. ("EIT") entered into the agreements for the realization and subsequent long-term technical management in full service mode (hospitality, service and maintenance, use of broadcasting infrastructure, etc.) of the Mux. The agreements provide, among other things, for:

- a transitional phase, which will see the realization and start-up of the Mux and the initial operations, which will run from the date the agreements were signed to 31 December 2017, and a regime phase of the Mux lasting 17 years (from 2018 to 2034);
- the right to free withdrawal of Cairo Network starting from 1 January 2025;
- guaranteed coverage at full performance of at least 94% of the population, in line with national Muxs with greater coverage;
- consideration to EIT:
    - during the transitional phase (2015-2017), amounting to a total of Euro 11.5 million for the full three-year period;
    - at regime (starting from 2018), amounting to Euro 16.3 million per year.

  These amounts include compensation for the availability of the transmitters;
- an annual charge from EIT to Cairo Network, starting from 2018, ranging between Euro 0 up to Euro 4 million, in the event that the available bandwidth on the Mux is not fully used by Cairo Network.

With the acquisition and realization of the Mux, the Cairo Communication Group will start activities as a network operator and have at its autonomous disposal a broadcasting capacity of about 22.4 Mbps versus the current 7.2 Mbps leased, which can be used to broadcast the La7 and La7d channels from 2017, to broadcast new channels if the Company were to launch any, or even lease them to third parties as early as 2016.

## Cairo Communication Group – Consolidated figures

The main **consolidated income statement** figures in 2014 can be compared with the figures in 2013:

| (€ thousands) | 31/12/2014 (Twelve months) | | | 31/12/2013 (Twelve months) | | |
|---|---|---|---|---|---|---|
| | **Current operations** | **Non-recurring items** | **Total** | **Current operations** | **Non-recurring items** | **Total** |
| Gross operating revenue | 266,010 | - | 266,010 | 276,704 | - | 276,704 |
| Advertising agency discounts | (25,748) | - | (25,748) | (27,190) | - | (27,190) |
| Net operating revenue | **240.262** | **-** | **240.262** | **249,514** | **-** | **249,514** |
| Change in inventory | 45 | - | 45 | (61) | - | (61) |
| Other revenue and income | 11,618 | - | 11,618 | 7,985 | - | 7,985 |
| **Total revenue** | **251.925** | **-** | **251.925** | **257,438** | **-** | **257,438** |
| Production cost | (163,129) | - | (163,129) | (181,963) | (1,917) | (183,880) |
| Personnel expense | (60,573) | - | (60,573) | (48,789) | - | (48,789) |
| **Gross operating profit (EBITDA)** | **28,223** | **-** | **28,223** | **26,685** | **(1,917)** | **24,768** |
| Amortization, depreciation, provisions and impairment losses | (5,381) | - | (5,381) | (5,606) | - | (5,606) |
| **Operating profit (EBIT)** | **22,842** | - | **22,842** | **21,079** | **(1,917)** | **19,162** |
| Net financial income | 1,830 | - | 1,830 | 2,901 | - | 2,901 |
| Income / (loss) on investments | (1) | - | (1) | 699 | - | 699 |
| Non-recurring income from the acquisition of La7 S.r.l. | - | - | - | - | 57,066 | 57,066 |
| **Pre-tax profit** | **24,671** | **-** | **24,671** | **24,679** | **55,149** | **79,828** |
| Income tax | (821) | - | (821) | (5,620) | - | (5,620) |
| Non-controlling interests | (28) | - | (28) | (8) | - | (8) |
| **Profit from continuing operations attributable to the owners of the parent** | **23,822** | **-** | **23,822** | **19,051** | **55,149** | **74,200** |
| Profit/(loss) from discontinued operations | (1) | - | (1) | (6) | - | (6) |
| **Profit attributable to the owners of the parent** | **23,821** | **-** | **23,821** | **19,045** | **55,149** | **74,194** |

To provide a better understanding of the figures for comparative purposes, it should be noted that:

- the 2013 income statement included the figures of La7 S.r.l., which was consolidated on 1 May 2013, with regard only to the May-December eight-month period of 2013;
- the 2013 profit had benefited from "non-recurring income from the acquisition of La7".

In 2014, consolidated gross revenue came to approximately Euro 277.6 million (Euro 284.7 million in 2013). The consolidation of La7 S.r.l. for the entire twelve months (as compared to the May-December eight-month period of 2013 included in the same period last year) brought no significant change to revenue, since over 90% of La7 S.r.l. revenue comes from advertising sales generated by Cairo Communication under the advertising concession contract in effect before the acquisition.

Consolidated gross operating profit (EBITDA) and operating profit (EBIT), amounting to approximately Euro 28.2 million and Euro 22.8 million, grew by 5.8% and 8.4% versus the same results of current operations in 2013 (Euro 26.7 million and Euro 21.1 million). Consolidated profit, amounting to approximately Euro 23.8 million, rose sharply by about 25.1% versus the current operations in 2013 (Euro 19 million). In 2013, profit (Euro 74.2 million) included Euro 55.1 million, that is, non-recurring income and charges from the acquisition of La7. Specifically, "non-recurring income from the acquisition of La7 S.r.l." referred to the difference between the fair value of assets acquired and liabilities assumed at the date of acquisition and the purchase price paid, given the financial situation of La7 at the date of acquisition.

As mentioned, in 2014, gross operating profit (EBITDA) and operating profit (EBIT) from the TV publishing segment (La7) came to approximately Euro 9 million and Euro 6.2 million. Operating profit (EBIT) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 18.2 million, due to the write-down of tangible and intangible assets made in 2013 in the purchase price allocation of the investment.
In 2013, the income statement included the results of La7, specifically the May-December eight-month period of 2013, when gross operating profit (EBITDA) and operating profit (EBIT) from the TV publishing segment (La7) had come to approximately Euro 3.6 million and Euro 2 million. In 2013, operating profit (EBIT) from the TV publishing segment (La7) had benefitted in the consolidated financial statements from lower amortization and depreciation of Euro 16.5 million, due to the write-down of tangible and intangible assets made in the purchase price allocation of the investment.

The main **consolidated income statement figures** in **4Q14** can be compared as follows with those of 4Q13:

| (€ thousands) | 31/12/2014 (Three months) | | | 31/12/2013 (Three months) | | |
|---|---|---|---|---|---|---|
| | **Current operations** | **Non-recurring items** | **Total** | **Current operations** | **Non-recurring items** | **Total** |
| Gross operating revenue | 75,206 | - | 75,206 | 79,389 | - | 79,389 |
| Advertising agency discounts | (7,439) | - | (7,439) | (7,945) | - | (7,945) |
| Net operating revenue | **67,767** | **-** | **67,767** | **71,444** | **-** | **71,444** |
| Change in inventory | 72 | - | 72 | 4 | - | 4 |
| Other revenue and income | 3,819 | | 3,819 | 4,348 | | 4,348 |
| **Total revenue** | **71,658** | **-** | **71,658** | **75,796** | **-** | **75,796** |
| Production cost | (48,497) | - | (48,497) | (50,985) | - | (50,985) |
| Personnel expense | (16,494) | - | (16,494) | (15,881) | - | (15,881) |
| **Gross operating profit (EBITDA)** | **6,667** | **-** | **6,667** | **8,830** | **-** | **8,830** |
| Amortization, depreciation, provisions and impairment losses | (1,415) | - | (1,415) | (2,785) | - | (2,785) |
| **Operating profit (EBIT)** | **5,252** | **-** | **5,252** | **6,145** | **-** | **6,145** |
| Net financial income | 106 | - | 106 | 623 | - | 623 |
| Income / (loss) on investments | - | - | - | - | - | - |
| Non-recurring income from acquisition of La7 S.r.l. | | - | | - | - | - |
| **Pre-tax profit** | **5,358** | **-** | **5,358** | **6,768** | **-** | **6,768** |
| Income tax | (443) | - | (443) | (666) | - | (666) |
| Non-controlling interests | (14) | - | (14) | (7) | - | (7) |
| **Profit from continuing operations attributable to the owners of the parent** | **4,901** | **-** | **4,901** | **6,095** | **-** | **6,095** |
| Profit / (loss) from discontinued operations | (1) | - | (1) | (5) | - | (5) |
| **Profit attributable to the owners of the parent** | **4,900** | **-** | **4,900** | **6,090** | - | **6,090** |

In **4Q14**, consolidated gross revenue amounted to approximately Euro 79 million (Euro 83.7 million in 2013). Consolidated gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro 6.7 million and Euro 5.3 million (Euro 8.8 million and Euro 6.1 million in 4Q13). Consolidated profit in 4Q14 came to approximately Euro 4.9 million (Euro 6.1 million in 4Q13).

Gross operating profit (EBITDA) and operating profit (EBIT) in the TV publishing segment (La7) came to approximately Euro 3.1 million and Euro 2.4 million. These results benefited from lower amortization and depreciation of Euro 2.8 million, due to the write-down of tangible and intangible assets made in 2013 in the purchase price allocation of the investment.

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

| (€ thousands) | 31/12/2014 (Twelve months) | 31/12/2014 (Quarter) | 31/12/2013 (Twelve months) | 31/12/2013 (Quarter) |
|---|---|---|---|---|
| **Consolidated statement of comprehensive income** | | | | |
| Profit attributable to owners of the parent | **23,891** | **4,900** | **74,194** | **6.090** |
| *Other non-reclassifiable items of the comprehensive income statement* | | | | |
| Actuarial profit (loss) from defined benefit plans | (1,367) | (671) | (510) | (587) |
| Tax effect | 376 | 185 | 140 | 161 |
| **Total comprehensive income** | **22,830** | **4,414** | **73,824** | **5,664** |

The Group's performance can be read better by analyzing the 2014 and 4Q14 results by **main business segment** (magazine publishing, advertising, TV publishing (La7), network(Cairo Network) and Il Trovatore) versus those of 2013 and 4Q13:

| **2014** **(Twelve months)** (€ thousands) | **Magazine publishing** | **Advertising** | **TV publishing La7** | | **Trovato-re** | **Network operator Cairo Network** | **Intra-group and unallocated** | **Total** |
|---|---|---|---|---|---|---|---|---|
| | | | **Current operations** | **Non-recurring items** | | | | |
| Gross operating revenue | 96,704 | 181,332 | 110.913 | - | 834 | - | (123,773) | 266,010 |
| Advertising agency discounts | - | (25,748) | - | - | | - | - | (25,748) |
| **Net operating revenue** | **96,704** | **155,584** | **110,913** | **-** | **834** | **-** | **(123,773)** | **240,262** |
| Change in inventory | (28) | - | | | | 73 | | 45 |
| Other income | 1,312 | 919 | 9,323 | - | 62 | 2 | - | 11,618 |
| **Total revenue** | **97,988** | **156,503** | **120,236** | **-** | **896** | **75** | **(123,773)** | **251,925** |
| Production cost | (65,127) | (143,991) | (77,057) | - | (647) | (80) | 123,773 | (163,129) |
| Personnel expense | (19,063) | (7,247) | (34,221) | - | (42) | - | - | (60,573) |
| **Gross operating profit (EBITDA)** | **13,798** | **5,265** | **8,958** | **-** | **207** | **(5)** | **-** | **28,223** |
| Amortization, depreciation, provisions and impairment losses | (1,260) | (1,380) | (2,740) | - | - | (1) | - | (5,381) |
| **Operating profit (EBIT)** | **12,538** | **3,885** | **6,218** | **-** | **207** | **(6)** | **-** | **22,842** |
| Income / (loss) on investments | - | (1) | - | | | | | (1) |
| Net financial income | 17 | 390 | 1,424 | - | (1) | - | - | 1,830 |
| Non-recurring income from acquisition of La7 S.r.l. | - | - | - | - | - | - | - | - |
| **Pre-tax profit** | **12,555** | **4,274** | **7,642** | **-** | **206** | **(6)** | **-** | **24,671** |
| Income tax | (4,503) | (1,657) | 5,408 | | (69) | - | - | (821) |
| Non-controlling interests | - | - | - | - | (28) | - | - | (28) |
| **Profit from continuing operations attributable to the owners of the parent** | **8,052** | **2,617** | **13,050** | **-** | **109** | **(6)** | **-** | **23,822** |
| Profit / (loss) from discontinued operations | - | - | - | - | - | - | **(1)** | (1) |
| **Profit** | **8,052** | **2,617** | **13,050** | **-** | **109** | **(6)** | **(1)** | **23,821** |

| 2013<br>**(Twelve months)**<br>(€ thousands) | **Magazine publishing** | **Advertising** | **TV publishing La7 (*)**<br>**Current operations** | **Non-recurring items** | **Trovato-re** | **Network operator Cairo Network** | **Intra-group and unallocated** | **Total** |
|---|---|---|---|---|---|---|---|---|
| Gross operating revenue | 99,063 | 191,681 | 77,019 | - | 485 | - | (91,544) | 276,704 |
| Advertising agency discounts | - | (27,190) | - | - | - | - | - | (27,190) |
| **Net operating revenue** | **99,063** | **164,491** | **77,019** | **-** | **485** | **-** | **(91,544)** | **249,514** |
| Change in inventory | (61) | - | - | - | - | - | - | (61) |
| Other income | 2,381 | 5,539 | 2,391 | - | 1 | - | (2,327) | 7,985 |
| **Total revenue** | **101,383** | **170,030** | **79,410** | **-** | **486** | **-** | **(93,871)** | **257,438** |
| Production cost | (69,867) | (152,936) | (52,644) | (1,917) | (387) | - | 93,871 | (183,880) |
| Personnel expense | (19,117) | (6,531) | (23,107) | - | (34) | - | - | (48,789) |
| **Gross operating profit (EBITDA)** | **12,399** | **10,563** | **3,659** | **(1,917)** | **65** | **-** | **-** | **24,768** |
| Amortization, depreciation, provisions and impairment losses | (1,323) | (2,585) | (1,698) | - | - | - | - | (5,606) |
| **Operating profit (EBIT)** | **11,076** | **7,978** | **1,961** | **(1,917)** | **65** | **-** | **-** | **19,162** |
| Income / (loss) on investments | - | 699 | | - | - | - | - | 699 |
| Net financial income | 40 | 1,165 | 1,697 | | (1) | - | - | 2,901 |
| Non-recurring income from acquisition of La7 S.r.l. | - | - | - | 57,066 | - | - | - | 57,066 |
| **Pre-tax profit** | **11,116** | **9,842** | **3,658** | **55,149** | **64** | **-** | **-** | **79,828** |
| Income tax | (4,118) | (3,610) | 2,131 | - | (23) | - | - | (5,620) |
| Non-controlling interests | - | - | - | - | (8) | - | - | (8) |
| **Profit from continuing operations attributable to the owners of the parent** | **6,998** | **6,232** | **5,789** | **55,149** | **33** | **-** | **-** | **74,200** |
| Profit / (loss) from discontinued operations | - | - | - | - | - | | **(6)** | (6) |
| **Profit** | **6,998** | **6,232** | **5,789** | **55,149** | **33** | | **(6)** | **74,194** |

(*) The amounts shown for the "TV Publishing" segment refer to the eight-month period from 1 May 2013 to 31 December 2013

| **2014**<br>**(Three months)**<br>(€ thousands) | **Magazine publishing** | **Advertising** | **TV publishing La7**<br>**Current operations** | **Non-recurring items** | **Trovato-re** | **Network operator Cairo Network** | **Intra-group and unallocated** | **Total** |
|---|---|---|---|---|---|---|---|---|
| Gross operating revenue | 24,054 | 53,624 | 33,640 | - | 223 | - | (36,335) | 75,206 |
| Advertising agency discounts | - | (7,439) | - | - | - | - | - | (7,439) |
| **Net operating revenue** | **24,054** | **46,185** | **33,640** | **-** | **223** | **-** | **(36,335)** | **67,767** |
| Change in inventory | (1) | - | - | - | - | 73 | - | 72 |
| Other income | 193 | 314 | 3,249 | - | 62 | 1 | - | 3,819 |
| **Total revenue** | **24,246** | **46,499** | **36,889** | **-** | **285** | **74** | **(36,335)** | **71,658** |
| Production cost | (16,354) | (43,547) | (24,773) | - | (161) | 3 | 36,335 | (48,497) |
| Personnel expense | (4,965) | (2,481) | (9,031) | - | (17) | - | - | (16,494) |
| **Gross operating profit (EBITDA)** | **2,927** | **471** | **3,085** | **-** | **107** | **77** | **-** | **6,667** |
| Amortization, depreciation, provisions and impairment losses | (475) | (223) | (717) | - | - | - | - | (1,415) |
| **Operating profit (EBIT)** | **2,452** | **248** | **2,368** | **-** | **107** | **77** | **-** | **5,252** |
| Income / (loss) on investments | - | - | - | - | | | | - |
| Net financial income | (18) | 13 | 112 | - | (1) | - | - | 106 |
| Non-recurring income from acquisition of La7 S.r.l. | - | - | - | - | - | - | - | |
| **Pre-tax profit** | **2,434** | **261** | **2,480** | **-** | **106** | **77** | **-** | **5,358** |
| Income tax | (777) | (175) | 546 | - | (37) | - | - | (443) |
| Non-controlling interests | - | - | - | - | (14) | - | - | (14) |
| **Profit from continuing operations attributable to the owners of the parent** | **1,657** | **86** | **3,026** | **-** | **55** | **77** | **-** | **4,901** |
| Profit / (loss) from discontinued operations | - | - | - | - | - | - | **(1)** | (1) |
| **Profit** | **1,657** | **86** | **3,026** | **-** | **55** | **77** | **(1)** | **4,900** |

| 2013 (Three months) (€ thousands) | Magazine publishing | Advertising | TV publishing La7 Current operations | TV publishing La7 Non-recurring items | Trovato-re | Network operator Cairo Network | Intra-group and unallocated | Total |
|---|---|---|---|---|---|---|---|---|
| Gross operating revenue | 24,566 | 57,479 | 35,509 | - | 209 | - | (38,374) | 79,389 |
| Advertising agency discounts | - | (7,945) | - | - | - | - | - | (7,945) |
| **Net operating revenue** | **24,566** | **49,534** | **35,509** | | **209** | **-** | **(38,374)** | **71,444** |
| Change in inventory | 4 | - | - | - | - | - | - | 4 |
| Other income | 482 | 1,551 | 1,883 | - | - | - | 432 | 4,348 |
| **Total revenue** | **25,052** | **51,085** | **37,392** | | **209** | **-** | **(37,942)** | **75,796** |
| Production cost | (16,857) | (46,364) | (25,559) | - | (146) | - | 37,942 | (50,984) |
| Personnel expense | (5,037) | (2,098) | (8,736) | - | (10) | - | - | (15,881) |
| **Gross operating profit (EBITDA)** | **3,158** | **2,623** | **3,097** | **-** | **53** | **-** | **-** | **8,930** |
| Amortization, depreciation, provisions and impairment losses | (473) | (1,411) | (901) | - | - | - | - | (2,785) |
| **Operating profit (EBIT)** | **2,685** | **1,212** | **2,196** | **-** | **53** | **-** | **-** | **6,145** |
| Income / (loss) on investments | - | | - | - | - | - | - | - |
| Net financial income | (9) | 161 | 471 | | - | - | - | 623 |
| Non-recurring income from acquisition of La7 S.r.l. | - | - | - | - | - | - | - | - |
| **Pre-tax profit** | **2,676** | **1,373** | **2,667** | **-** | **53** | **-** | **-** | **6,768** |
| Income tax | (901) | (669) | 923 | - | (19) | - | - | (666) |
| Non-controlling interests | - | - | - | - | (7) | - | - | (7) |
| **Profit from continuing operations attributable to the owners of the parent** | **1,775** | **704** | **3,590** | **-** | **27** | **-** | **-** | **6,095** |
| Profit / (loss) from discontinued operations | - | - | - | - | - | | (5) | (5) |
| **Profit** | **1,775** | **704** | **3,590** | **-** | **27** | | **(5)** | **6,090** |

## *3. Consolidated statement of financial position*

The main figures of the consolidated **statement of financial position** at 31 December 2014 can be analyzed versus the situation at 31 December 2013:

| (€ thousands) | 31/12/2014 | 31/12/2013 |
|---|---|---|
| **Balance sheet** | | |
| Property, plant and equipment | 3,069 | 2,829 |
| Intangible assets | 56,867 | 12,986 |
| Financial assets | 1.179 | 555 |
| Deferred tax assets | 3,907 | 4,589 |
| Net current assets | (19,157) | (22,390) |
| **Total assets** | **45,865** | **(1,431)** |
| Non-current borrowings and provisions | 43,540 | 46,814 |
| (Net financial assets)/Net debt | (124,061) | (172,915) |
| Equity attributable to the owners of the parent | 126,346 | 124,658 |
| Equity attributable to non-controlling interests | 40 | 12 |
| **Total equity and liabilities** | **45,865** | **(1,431)** |

It should be noted that in the consolidated financial statements for the year ended 31 December 2013, the acquisition of La7 S.r.l. had been accounted for under IFRS 3, applying the "acquisition method", by measuring the fair value of identifiable assets and liabilities acquired, considering the future profit-generating capacity of La7 S.r.l. at the date of acquisition. This approach determined:

- the recognition of “provisions for future risks and charges” of Euro 21.4 million, regarding certain contracts whose non-discretionary costs to fulfill obligations exceeded the assumed economic benefits, and specific risk situations related to existing and/or performed contracts and pending or potential litigation,
- the full write-down of non-current assets at the date of acquisition of La7 (30 April 2013), consisting primarily of TV broadcasting rights, and specific technical equipment, whose value was deemed unrecoverable in view of the income prospects of La7 S.r.l. at the acquisition date.

The change in intangible assets is due primarily to the acquisition, in the tender procedure opened by the Ministry of Economic Development, of the rights to use TV frequencies for digital terrestrial broadcasting systems (Euro 31.6 million plus ancillary costs), which also explains the change in the net financial position as described below.

The Cairo Communication Group:

- is not exposed to liquidity risk, in that on one hand, significant financial resources are held, with a net available positive financial position of Euro 124 million whilst on the other hand, it generates positive results in its traditional segments, and can finance its current operations even within the dynamics of its current assets.
- is not basically exposed to currency risk, whereas interest rate risk affects the yield on available cash (Euro 149 million) and the cost of the bank loan (Euro 25 million) obtained by Cairo Network; the Group makes limited use of financial hedging instruments, to hedge currency risk on the acquisition of TV rights from film studios,
- is partly exposed to credit risk, primarily in relation to its advertising sales activities. This risk is however mitigated by the fact that exposure is distributed across a large number of customers and that credit monitoring and control procedures are in place. The client concentration/advertising revenue ratio has not basically changed versus prior years. 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 sold or purchased. At 31 December 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.

## *4. Consolidated net financial position*

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

| (€ thousands) | 31/12/2014 | 31/12/2013 | Change |
|---|---|---|---|
| Cash and cash equivalents | 149,061 | 172,915 | (23,854) |
| Current financial assets | | - | - |
| Bank loans | (25,000) | - | (25,000) |
| **Total** | **124,061** | **172,915** | **(48,854)** |

The change in the net financial position versus 31 December 2013 is mainly due to the investment made by Cairo Network (Euro 31.6 million plus ancillary costs) in the acquisition of the Mux, and to the distribution of dividends approved by the Shareholders' Meeting on 29 April 2014 (0.27 Euro per share, for a total of Euro 21.2 million).

The bank loan of Euro 25 million, granted by Unicredit S.p.A. and used by Cairo Network to pay the rights of use of the TV frequencies, is secured by a guarantee issued by the parent Cairo Communication, and calls for the payment of an interest rate equal to the 3-month Euribor plus 225 basis points and certain constraints (negative pledges) and commitments (covenants) on the part of the company, which are typical of these transactions.

At 31 December 2014, the net financial position of La7 came to Euro 106.5 million and the change versus 31 December 2013 (Euro 115.8 million) is mainly due to the trend in net working capital and to investments in the acquisition of TV rights.

Under the contract to acquire the entire share capital of La7, entered into in April 2013, 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.

## *5. Revenue*

**Gross operating revenue** in 2014 and 4Q14, split up by main segment (magazine publishing, advertising, TV publishing, network operator and Il Trovatore), can be analyzed as follows versus the amounts of the same periods of 2013:

| **Gross revenue** (€ thousands) | **31/12/2014 (Twelve months)** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Magazine publishing** | **Advertising** | **TV publishing (La7)** | **Trovatore** | **Network operator Cairo Network** | **Intra-group eliminations and unallocated** | **Total** |
| Magazine over-the-counter sales | 73,395 | - | - | - | - | - | 73,395 |
| Print media advertising | 20,931 | 27,687 | - | - | - | (20,641) | 27,977 |
| TV advertising | - | 149,636 | 106,991 | - | - | (101,412) | 155,215 |
| Stadium signage | - | 2,537 | - | - | - | - | 2,537 |
| Internet advertising | - | 870 | 759 | 494 | - | (878) | 1,245 |
| Revenue from concession of programming schedule spaces | - | - | 982 | - | - | - | 982 |
| Other TV revenue | - | - | 2,181 | - | - | - | 2,181 |
| Subscriptions | 2,883 | - | - | - | - | - | 2,883 |
| Books and catalogues | 981 | - | - | - | - | - | 981 |
| Other revenue | - | 602 | - | 340 | - | (842) | 100 |
| VAT relating to publications | (1,486) | - | - | - | - | - | (1,486) |
| **Total gross operating revenue** | **96,704** | **181,332** | **110,913** | **834** | **-** | **(123,773)** | **266,010** |
| Other revenue | 1,312 | 919 | 9,323 | 62 | 2 | - | 11,618 |
| **Total revenue** | **98,016** | **182,251** | **120,236** | **896** | **2** | **(123,773)** | **277,628** |

| **Gross revenue** (€ thousands) | **31/12/2013 (Twelve months)** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Magazine publishing** | **Advertising** | **TV publishing (La7)*** | **Trovatore** | **Network operator Cairo Network** | **Intra-group eliminations and unallocated** | **Total** |
| Magazine over-the-counter sales | 74,791 | - | - | - | - | - | 74,791 |
| Print media advertising | 21,768 | 28,975 | - | - | - | (21,514) | 29,229 |
| TV advertising | - | 159,194 | 73,227 | - | - | (69,208) | 163,213 |
| Stadium signage | - | 2,536 | - | - | - | - | 2,536 |
| Internet advertising | - | 396 | 427 | 143 | - | | 966 |
| Revenue from concession of programming schedule spaces | - | - | 1,295 | - | - | - | 1,295 |
| Other TV revenue | - | - | 2,070 | - | - | - | 2,070 |
| Subscriptions | 2,992 | - | - | - | - | - | 2,992 |
| Books and catalogues | 910 | - | - | - | - | - | 910 |
| Other revenue | - | 580 | | 342 | - | (822) | 100 |
| VAT relating to publications | (1,398) | - | - | - | - | - | (1,398) |
| **Total gross operating revenue** | **99,063** | **191,681** | **77,019** | **485** | **-** | **(91,544)** | **276,704** |
| Other revenue | 2,381 | 5,539 | 2,391 | 1 | - | (2,327) | 7,985 |
| **Total revenue** | **101,444** | **197,220** | **79,410** | **486** | **-** | **(93,871)** | **284,689** |

(*) The amounts shown for the "TV Publishing" segment refer to the eight-month period from 1 May 2013 to 31 December 2013

| **Gross revenue** (€ thousands) | **Quarter at 31/12/2014** (Three months) | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Magazine publishing** | **Advertising** | **TV publishing (La7)** | **Trovatore** | **Network operator Cairo Network** | **Intra-group eliminations and unallocated** | **Total** |
| Magazine over-the-counter sales | 17,391 | - | - | - | | - | 17,391 |
| Print media advertising | 5,773 | 7,586 | - | - | - | (5,531) | 7,828 |
| TV advertising | - | 44,631 | 32,152 | - | - | (30,377) | 46,406 |
| Stadium signage | - | 1,056 | - | - | - | - | 1,056 |
| Internet advertising | - | 201 | 445 | 137 | - | (215) | 568 |
| Revenue from concession of programming schedule spaces | - | - | 327 | - | - | - | 327 |
| Other TV revenue | - | - | 716 | | - | - | 716 |
| Subscriptions | 705 | - | - | - | - | - | 705 |
| Books and catalogues | 536 | - | - | | - | - | 536 |
| Other revenue | - | 150 | - | 86 | - | (212) | 24 |
| VAT relating to publications | (351) | - | - | - | - | - | (351) |
| **Total gross operating revenue** | **24,054** | **53,624** | **33,640** | **223** | **-** | **(36,335)** | **75,206** |
| Other revenue | 193 | 314 | 3,249 | 62 | 1 | - | 3,819 |
| **Total revenue** | **24,247** | **53,938** | **36,889** | **285** | **1** | **(36,335)** | **79,025** |

| **Gross revenue** (€ thousands) | **Quarter at 31/12/2013** (Three months) | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Magazine publishing** | **Advertising** | **TV publishing (La7)** | **Trovatore** | **Network operator Cairo Network** | **Intra-group eliminations and unallocated** | **Total** |
| Magazine over-the-counter sales | 17,575 | - | - | - | - | | 17,575 |
| Print media advertising | 5,979 | 8,160 | - | - | - | (5,900) | 8,239 |
| TV advertising | - | 48,260 | 33,940 | - | - | (32,266) | 49,934 |
| Stadium signage | - | 763 | - | - | - | - | 763 |
| Internet advertising | - | 151 | 159 | 122 | - | - | 432 |
| Revenue from concession of programming schedule spaces | - | - | 269 | - | - | - | 269 |
| Other TV revenue | - | - | 1,141 | - | - | - | 1,141 |
| Subscriptions | 732 | - | - | - | - | - | 732 |
| Books and catalogues | 592 | - | - | - | - | - | 592 |
| Other revenue | - | 145 | | 87 | - | (208) | 24 |
| VAT relating to publications | (312) | - | - | - | - | - | (312) |
| **Total gross operating revenue** | **24,566** | **57,479** | **35,509** | **209** | - | **(38,374)** | **79,389** |
| Other revenue | 482 | 1,551 | 1,883 | - | - | 432 | 4,348 |
| **Total revenue** | **25,048** | **59,030** | **37,392** | **209** | - | **(37,942)** | **83,737** |

*PRINT MEDIA PUBLISHING*

***CAIRO EDITORE - CAIRO PUBLISHING***

In 2014, 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, in 2014:

- the operating results of the Group's publishing segment increased versus the prior year;
- it confirmed the excellent circulation results, with revenue at Euro 73.4 million versus Euro 74.8 million in 2013,
- Group gross advertising revenue, which reached Euro 27.2 million, dropped by 3.9% versus 2013 (*ACNielsen*, -6.5% the magazine advertising market in 2014).

In the twelve months, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 13.8 million and Euro 12.5 million, up by 11.3% and 13.2% versus 2013 (Euro 12.4 million and Euro 11.1 million).

The Group weeklies confirmed the excellent circulation results achieved, with an average ADS circulation in the January-November eleven-month period of 2014 of 537,389 copies for "Settimanale DIPIU", 335,608 copies for "DIPIU' TV", 163,441 copies for "Settimanale DIPIU' e DIPIU'TV Cucina", 204,641 copies for "Diva e Donna", 216,084 copies for "Settimanale Nuovo", 138,996 copies for "F", 154,196 copies for "TVMia" and 118,642 copies for "Settimanale Giallo", reaching a total of approximately 1.9 million average copies sold, and making the Group the leading publisher in copies of weeklies sold at newsstands, with an over 25% market share.

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

- cover prices of the weeklies are lower, some half the price of those of the main competitors; this gap increases appeal and allows space for potential price increases, hence for increased profitability;
- sales are mostly over-the-counter (95%), with a minimum impact of revenue generated by gifts and sundry editorial material (approximately 2% on total publishing revenue, including advertising), whose sales figures have collapsed in the publishing segment; the Group has opted to focus on the quality of its publications; in 2014, gross advertising revenue generated by the Group's publications accounted for 26% (27% in

2013) - 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 the remaining 74% (73% in 2013) came from direct sales and subscriptions, proof of the high editorial quality of 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 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 2015, Cairo Editore will continue 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*

Looking at the advertising segment, in 2014, 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" 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 (La7.it, TG.La7.it, Cartoon Network.it) and for the sale of stadium signage and space at the Olimpico in Turin for Torino FC.

In 2014, total gross advertising revenue, which includes TV advertising revenue invoiced directly by La7 (Euro 6.2 million), came to approximately Euro 187.5 million. Specifically, advertising revenue on La7 and La7d totaled Euro 152.9 million (Euro 157.5 million in 2013).

For a comparative assessment of the advertising revenue trend, it should also be noted that in 2013 the advertising sales concession contract on Sportitalia channels was consensually terminated, effective 30 April 2013. The contract had generated gross advertising revenue of approximately Euro 2.4 million.

*TV PUBLISHING (La7)*

As previously mentioned, to provide a better understanding of the figures for comparative purposes, it should be noted that:

- the 2013 income statement included the results of La7 S.r.l., which was consolidated on 1 May 2013, with regard only to the May-December eight-month period of 2013;
- the 2013 result had benefited from the "non-recurring income from the acquisition of La7".

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

Starting from May 2013, the Group began to implement its own plan to restructure the company, achieving, as early as the May-December eight-month period of 2013, a positive gross operating profit (EBITDA) of Euro 3.7 million.

In 2014, the Group managed to strengthen the results of the cost rationalization measures implemented in the first eight months of activity in 2013, achieving a positive gross operating profit (EBITDA) of Euro 9 million, versus the gross operating loss of Euro 25.4 million of La7 in the January-December twelve-month period of 2013.

Operating profit (EBIT) came to Euro 6.2 million and benefited in the consolidated financial statements from lower amortization and depreciation of Euro 18.2 million, due to the write-down of tangible and intangible assets made in 2013 in the purchase price allocation of the investment.

Gross operating profit (EBITDA) in the TV publishing segment in 2014 can be analyzed as follows with the same result of current operations in 2013 (as compared to the May-December eight-month period of 2013 included in the consolidated income statement at 31 December 2013, shown in the interim management report at that date):

| (€ thousands) | 31/12/2014 (Twelve months) | 31/12/2013 (Twelve months) |
|---|---|---|
| Gross operating revenue | 110,913 | 114,429 |
| Advertising agency discounts | - | - |
| Net operating revenue | **110,913** | **114,429** |
| Change in inventory | - | - |
| Other revenue and income | 9,323 | 2,879 |
| **Total revenue** | **120,236** | **117,308** |
| Production cost | (77,057) | (52,819) |
| Personnel expense | (34,221) | (39,081) |
| **Gross operating profit (EBITDA)** | **8,958** | **(25,408)** |

In 2014, La7's average all-day share was 3.25% and 3.84% in prime time from 8:30 PM to 11:30 PM), with a high-quality target audience. La7d's share maintained its level at 0.5%. The results of the channel's news and discussion programmes - such as the 8 PM newscast (5.7%), "Otto e mezzo" (5.4%), "Piazza Pulita" (4.8%), "Crozza nel Paese delle Meraviglie" (8%) "Servizio Pubblico" (7.3%), "Anno Uno" (5.5%) "Le invasioni Barbariche" (4.1%), "Coffee Break" (4.9%), "Omnibus" (3.7%), "La Gabbia" (3.4%), "L'aria che tira" (6%), "Bersaglio Mobile" (5%), and "Di martedì" (4.4%) - were 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.

## *6. Income statement figures of the Parent*

The main **income statement figures of Cairo Communication S.p.A.** in 2014 and 4Q14 can be compared with those of the same periods in 2013:

| (€ thousands) | 31/12/2014 (Twelve months) | 31/12/2013 (Twelve months) | 31/12/2014 (Three months) | 31/12/2013 (Three months) |
|---|---|---|---|---|
| Gross operating revenue | 116,595 | 121,047 | 34,806 | 37,422 |
| Advertising agency discounts | - | - | - | - |
| **Net operating revenue** | **116,595** | **121,047** | **34,806** | **37,422** |
| Other revenue and income | 336 | 1,217 | 150 | 278 |
| **Total revenue** | **116,931** | **122,264** | **34,956** | **37,700** |
| Production cost | (108,589) | (112,475) | (32,847) | (35,701) |
| Personnel expense | (2,992) | (2,844) | (842) | (784) |
| **Gross operating profit (EBITDA)** | **5,350** | **6,945** | **1,267** | **1,215** |
| Amortization, depreciation, provisions and impairment losses | (240) | (272) | (91) | (106) |
| **Operating profit (EBIT)** | **5,110** | **6,673** | **1,176** | **1,109** |
| Net financial income | 363 | 1,016 | 1 | 128 |
| Income (loss) on investments | 7,088 | 13,174 | 6,049 | 9,400 |
| **Pre-tax profit** | **12,561** | **20,863** | **7,226** | **10,637** |
| Income tax | (1,904) | (2,797) | (454) | (529) |
| **Profit from continuing operations** | **10,657** | **18,066** | **6,772** | **10,108** |
| Loss from discontinued operations | (1) | (5) | (1) | (5) |
| **Profit** | **10,656** | **18,061** | **6,771** | **10,103** |

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 116.6 million (Euro 121 million in 2013);
- parent gross operating profit (EBITDA) was approximately 5.3 million (Euro 6.9 million in 2013);
- operating profit (EBIT) was approximately Euro 5.1 million (Euro 6.7 million in 2013);
- profit was approximately Euro 10.7 million (Euro 18.1 million in 2013).

"Income (loss) on investments" includes the dividends approved by the subsidiaries Cairo Pubblicità, amounting to Euro 1 million, and Cairo Editore, amounting to Euro 6.2 million, as well as the value adjustment of the investment held in Cairo Publishing S.r.l., amounting to a negative Euro 0.2 million.

In 2013, the item included the dividends approved by Cairo Pubblicità, amounting to Euro 3.4 million, and by Cairo Editore, amounting to Euro 9.7 million, the gain from the sale of Dmail Group shares, amounting to Euro 327 thousand, as well as the value adjustment of the investment held in Cairo Publishing S.r.l., amounting to a negative Euro 0.3 million.

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

| (€ thousands) | **31/12/2014 (Twelve months)** | **31/12/2014 (Quarter)** | **31/12/2013 (Twelve months)** | **31/12/2013 (Quarter)** |
|---|---|---|---|---|
| **Statement of comprehensive income of the Parent** | | | | |
| Profit | **10,656** | **6,771** | **18,061** | **10,103** |
| *Other non-reclassifiable items of the comprehensive income statement* | | | | |
| Actuarial profit (loss) from defined benefit plans | (138) | (99) | (97) | (97) |
| Tax effect | 38 | 27 | 27 | 27 |
| **Total statement of comprehensive income** | **10,556** | **6,699** | **17,991** | **10,033** |

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

The main figures of the **statement of financial position** at 31 December 2014 can be analyzed versus the situation at 31 December 2013:

| (€ thousands) | **31/12/2014** | **31/12/2013** |
|---|---|---|
| **Balance sheet** | | |
| Property, plant and equipment | 457 | 549 |
| Intangible assets | 320 | 356 |
| Financial assets | 22,923 | 17,614 |
| Other non-current assets | 13 | 13 |
| Net current assets | 9,110 | 14,961 |
| **Total assets** | **32,823** | **33,493** |
| Non-current borrowings and provisions | 1,349 | 1,346 |
| (Net financial position)/Net debt | (25,768) | (35,690) |
| Equity | 57,242 | 67,837 |
| **Total equity and liabilities** | **32,823** | **33,493** |

The increase in financial assets amounts to Euro 6.6 million and is attributable to the capitalization of the subsidiary Cairo Network in view of the investment it made to acquire TV frequencies.

As mentioned in the notes to the consolidated statement of financial position, at their Meeting on 29 April 2014, the shareholders approved the distribution of a dividend of 0.27 Euro per share, inclusive of tax, with coupon detachment date on 12 May 2014 (made payable on 15 May 2014), for a total of Euro 21.2 million.

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

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

| (€ thousands) | 31/12/2014 | 31/12/2013 | Change |
|---|---|---|---|
| Cash and cash equivalents | 25,768 | 35,690 | (9,922) |
| Current financial assets | - | - | - |
| **Total** | **25,768** | **35,690** | **(9,922)** |

### *9. Transactions with parents, subsidiaries and associates*

In 2014, 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 2014, 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 2014 of Euro 2 million to the concession holder against revenue of Euro 2.3 million net of agency discounts. Cairo Pubblicità earned further commissions of Euro 72 thousand; as part of the agreement, Cairo Pubblicità also purchased football tickets worth Euro 109 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 tax consolidation scheme.

## Events occurring after 4Q14 and business outlook

In January 2015, Cairo Network and EI Towers S.p.A. entered into the agreements for the realization and subsequent long-term technical management in full service mode (hospitality, service and maintenance, use of broadcasting infrastructure, etc.) of the Mux, operating on TV frequencies for digital terrestrial broadcasting systems. The company acquired the rights of use in 2014, in the frame of the tender procedure opened by the Ministry of Economic Development.

The agreements with El Towers provide, among other things, for:

- a transitional phase, which will see the realization and start-up of the Mux and the initial operations, which will run from the date the agreements were signed to 31 December 2017, and a regime phase of the Mux lasting 17 years (from 2018 to 2034);
- the right to free withdrawal of Cairo Network starting from 1 January 2025;
- guaranteed coverage at full performance of at least 94% of the population, in line with national Muxs with greater coverage;
- consideration to EIT:
    - during the transitional phase (2015-2017), amounting to a total of Euro 11.5 million for the full three-year period;
    - at regime (starting from 2018), amounting to Euro 16.3 million per year.

  These amounts include compensation for the availability of the transmitters;
- an annual charge from El Towers to Cairo Network, starting from 2018, ranging between Euro 0 up to Euro 4 million, in the event that the available bandwidth on the Mux is not fully used by Cairo Network

With the acquisition and realization of the Mux, the Cairo Communication Group will start activities as a network operator and have at its autonomous disposal a broadcasting capacity of about 22.4 Mbps versus the current 7.2 Mbps leased, which can be used to broadcast the La7 and La7d channels from 2017, to broadcast new channels if the Company were to launch any, or even lease them to third parties as early as 2016.

In 2014, despite facing a challenging relevant market, 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, succeeding in achieving also in 2014 a positive gross operating profit (EBITDA) of Euro 9 million, while in the January-December twelve-month period of 2013, gross operating loss of La7 had amounted to Euro 25.4 million;

- 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 also in 2015, despite the general market trend;
- achieved highly positive results in its traditional segments (magazine publishing and advertising), despite the general economic and financial context and relevant market trend;
- took part with the subsidiary Cairo Network in the tender procedure opened by the Ministry of Economic Development for the assignment of rights to use TV frequencies for digital terrestrial broadcasting systems, submitting its binding bid and winning the rights to use a lot of frequencies ("Mux") for a period of 20 years.

In 2015, the Cairo Communication Group will continue to develop its traditional businesses (magazine publishing and advertising). Despite the current economic and competitive context, and given the high quality of the publications and the media under concession, the Group considers it a feasible target to continue to achieve positive operating results.

Looking at the TV publishing segment, in 2015, the Group will continue to work on strengthening the results of the rationalization and cost-curbing measures achieved in 2013 and 2014.

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