Draft Annual Financial Report at 31 December 2015

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

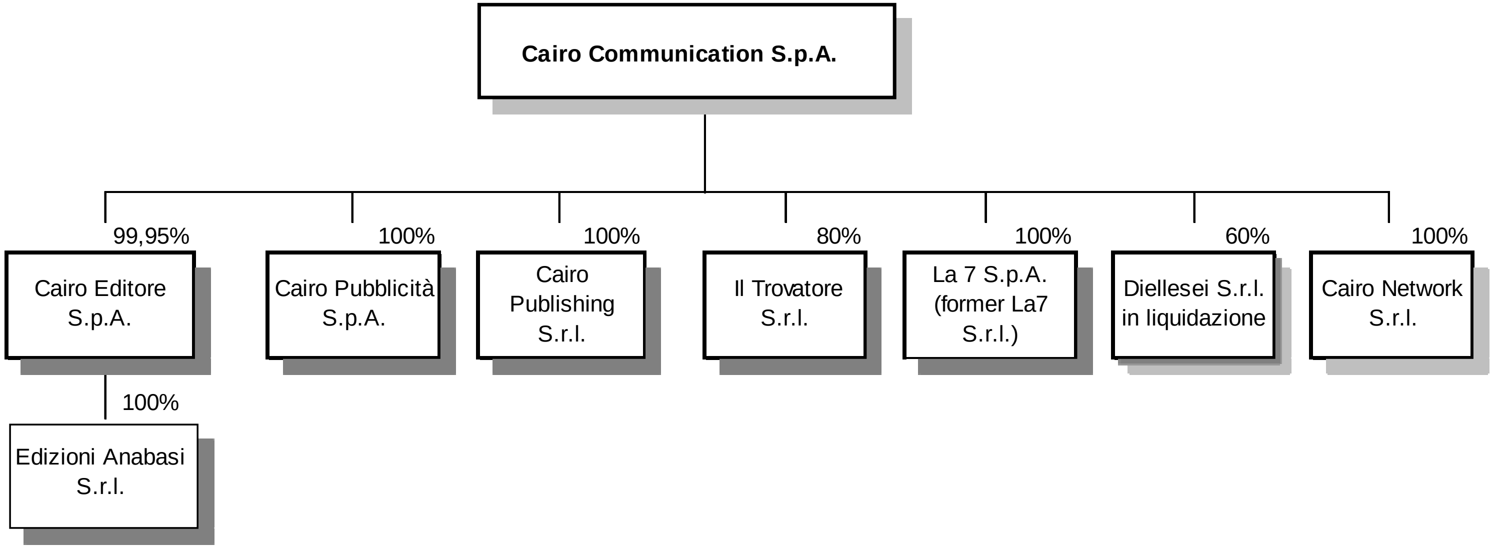
Marco Moroni	Chairman
Marco Giuliani	Standing auditor
Maria Pia Maspes	Standing auditor
Emilio Fano	Alternate auditor
Enrico Tamborini	Alternate auditor

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 2015



DIRECTORS' REPORT

Separate and consolidated financial statements at 31 December 2015

Dear Shareholders,

the separate and consolidated financial statements as at and for the year ended 31 December 2015, submitted for your approval, show, respectively, a profit of Euro 8,109 thousand and a profit attributable to the owners of the parent of Euro 11,053 thousand.

In 2015, the Cairo Communication Group operated as a:

- publisher of magazines and books (Cairo Editore/Editoriale Giorgio Mondadori and Cairo Publishing);
- TV (La7, La7d) and Internet (La7.it, TG.La7.it) publisher;
- multimedia advertising broker (Cairo Pubblicità) for the sale of advertising space on TV, in print media, on the Internet and in stadiums;
- network operator (Cairo Network), for the activities of which, in 2015, work continued on the realization of the mux.

In 2015, 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, advertising investments in Italy in 2015 amounted to approximately Euro 6.3 billion, down 0.5% versus 2014. The analysis by media shows that in 2015:

- the magazine advertising market dropped by 4.1% versus 2014, when it had slid by 6.5% versus 2013,
- the TV advertising market basically confirmed (0.7%) the amounts of 2014, when it had confirmed (-0.5%) those of 2013.

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

In 2015, despite such economic context in general and specifically of its relevant markets (advertising and publishing), and despite the drop reported by advertising revenue also as a result of the market trend, the Cairo Communication Group:

- reported in 4Q15 a strong improvement in the results trend versus the first nine months of the year, achieving <u>gross operating profit</u> (EBITDA) of approximately Euro 6.8 million, exceeding the result achieved in 4Q14 (Euro 6.6 million);

- continued its growth strategy by launching “Nuovo TV”, the new TV weekly led by Riccardo Signoretti, out on newsstands from 21 September; in the first 22 issues, it posted average sales of approximately 142 thousand copies, highly satisfactory results in line with forecasts; Thanks also to the results achieved by “Nuovo TV", 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 sales of approximately 165 thousand copies in the first 5 issues;
- reported a strong growth in results in the magazine publishing segment which, despite incurring total costs of Euro 1.4 million in September and October to launch the new weekly, achieved gross operating profit (EBITDA) and operating profit (EBIT) of Euro 14.6 million and Euro 13.5 million (up by approximately 6.1% and 7.7% versus 2014), 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 - in a persistently weak advertising market - to work on strengthening the results of the rationalization and cost-curbing measures achieved in the TV publishing segment (La7) in 2013 and 2014, and succeeded in posting, in 2015 too, a positive gross operating profit (EBITDA) of approximately Euro 1.6 million; specifically, in 4Q15, gross operating profit (EBITDA), amounting to approximately Euro 4.7 million, grew by about 50% versus the figure achieved in 4Q14, thanks also to the trend in advertising sales on La7 and La7d channels in December 2015, up by more than 10% versus December 2014.

In **2015**, consolidated gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 17.6 million and Euro 9.3 million (Euro 28.2 million and Euro 23 million in 2014). Profit attributable to the owners of the parent came to approximately Euro 11.1 million (Euro 23.8 million in 2014).

Looking at the business segments, in 2015:

- in the **magazine publishing segment**, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 14.6 million and Euro 13.5 million (Euro 13.8 million and Euro 12.5 million in 2014). The period under review confirmed the excellent circulation results (Euro 72.6 million versus Euro 73.4 million in 2014). Total costs of approximately Euro 1.4 million were incurred in September and October 2015 for the launch of “Nuovo TV”, which was supported by an advertising campaign also at newsstands;

- in the **TV publishing segment (La7)**, the Group continued to work on strengthening the results of the rationalization and cost-curbing measures achieved in 2013 and 2014, and succeeded in posting, in 2015 too, a positive gross operating profit (EBITDA) of approximately Euro 1.6 million. Operating profit (EBIT) came to a negative figure of approximately Euro 4.9 million and benefited in the consolidated financial statements from lower amortization and depreciation of Euro 9.2 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 2014, 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;
- in the **advertising segment**, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 1.3 million and Euro 0.7 million (Euro 5.2 million and Euro 4 million in 2014). In 2015, gross advertising sales on La7 and La7d channels amounted to Euro 140.1 million (Euro 152.9 million in 2014); specifically, thanks to the results achieved in December, the performance of advertising sales (approximately -3%) in 4Q15 showed a marked improvement versus the first nine months of the year (over -10%);
- in the **network operator segment,** in January 2015, 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, entered with EI Towers S.p.A. (“EIT”) into the agreements for the realization (currently in progress) and subsequent long-term technical management in full service mode (hospitality, service and maintenance, use of broadcasting infrastructure, etc.) of the mux.

Specifically, the results achieved in **4Q15** showed a clear improvement versus those reported in the course of the year. Consolidated gross operating profit (EBITDA) came to approximately Euro 6.8 million, up from the figure achieved in 4Q14 (Euro 6.6 million). Operating profit (EBIT) came to Euro 4.5 million (Euro 5.4 million in 4Q14). Profit attributable to the owners of the parent came to approximately Euro 4.4 million (Euro 4.9 million in 4Q14). Specifically, as mentioned earlier, in 4Q15, the Group’s TV publishing segment (La7) achieved gross operating profit (EBITDA) of Euro 4.7 million, up by approximately 50% versus 4Q14.

Regarding weeklies, with approximately 1.8 million average copies sold in the January-December twelve-month period of 2015, the Group retains its position as the leading publisher in copies of weeklies sold at newsstands, with an approximately 28% market share. Taking also into account the average sales of “Nuovo TV” in the first 15 issues, overall copies sold increase to approximately 1.9 million.

In 2015, La7’s average all-day share was 3.06% and 3.7% in prime time (from 8:30 PM to 11:30 PM), with a high-quality target audience. La7d’s share was 0.51%. The audience figures of the channel’s news and discussion programmes - such as the 8 PM newscast (5.1% from Monday to Friday), “Otto e mezzo” (5.1%), “Piazza Pulita” (4.4%), “Crozza nel Paese delle Meraviglie” (7.5%) “Servizio Pubblico” (5.5%), “Le invasioni Barbariche” (3%), “Coffee Break” (4.4%), “Omnibus” (4.3%), “La Gabbia” (3.5%), “L’aria che tira” (5.5%), “Bersaglio Mobile” (4%), “Di martedì” (5.3%), “In Onda” (4%), and “L’Aria d’estate” (4.6%) - were positive.

PERFORMANCE

Cairo Communication Group – Consolidated figures

The main **consolidated income statement** figures in 2015 can be compared with the figures in 2014:

(€ thousands)	**31/12/2015**	**31/12/2014**
Gross operating revenue	250,603	266,014
Advertising agency discounts	(24,021)	(25,748)
Net operating revenue	**226,582**	**240,266**
Change in inventory	33	(28)
Other revenue and income	9,403	11,627
Total revenue	**236,018**	**251,865**
Production cost	(157,505)	(163,048)
Personnel expense	(60,955)	(60,634)
Gross operating profit (EBITDA)	**17,557**	**28,183**
Amortization, depreciation, provisions and impairment losses	(8,217)	(5,221)
EBIT	**9,340**	**22,962**
Net financial income	692	1,829
Income (loss) on investments	-	(2)
Pre-tax profit	**10,032**	**24,789**
Income tax	1,040	(973)
Non-controlling interests	(18)	(24)
Profit from continuing operations attributable to the owners of the parent	**11,054**	**23,792**
Profit/ (loss) from discontinued operations attributable to the owners of the parent	(1)	(1)
Profit attributable to the owners of the parent	**11,053**	**23,791**

In 2015, consolidated gross revenue amounted to approximately Euro 260 million, comprising gross operating revenue of Euro 250.6 million and other revenue and income of Euro 9.4 million (Euro 277.6 million in 2014, comprising gross operating revenue of Euro 266 million and other revenue and income of Euro 11.6 million). Consolidated gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro 17.6 million and Euro 9.3 million (Euro 28.2 million and Euro 23 million in 2014). The costs incurred in September and October 2015 to launch the new TV weekly amounted to approximately Euro 1.4 million. Consolidated profit was approximately Euro 11.1 million (Euro 23.8 million in 2014). The increase in "amortization, depreciation, provisions and impairment losses" in 2015 is attributable to the amortization of television rights acquired by La7 effective from 1 May 2013.

As mentioned earlier, in 2015 operating profit (EBIT) in the TV publishing segment (La7) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 9.2 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 2014, operating profit (EBIT) in the TV publishing segment (La7) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 18.2 million.

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

(€ thousands)	**31/12/2015**	**31/12/2014**
Consolidated statement of comprehensive income		
Profit attributable to the owners of the parent	**11,053**	**23,791**
Other non-reclassifiable items of the comprehensive income statement		
Actuarial profit (loss) from defined benefit plans	(38)	(1,367)
Tax effect	10	376
Total comprehensive income	**11,025**	**22,800**

The Group's performance can be read better by analyzing the 2015 results by **main business segment** [magazine publishing, advertising, TV publishing (La7), network operator (Cairo Network) and Il Trovatore]:

2015 (€ thousands)	Magazine Publishing	Advertising	TV publishing (La7)	Trovatore	Network operator (Cairo Network)	Intra-group and unallocated	Total
Gross operating revenue	95,037	168,588	102,098	893	-	(116,013)	250,603
Advertising agency discounts	-	(24,021)	-	-	-	-	(24,021)
Net operating revenue	**95,037**	**144,567**	**102,098**	**893**	**-**	**(116,013)**	**226,582**
Change in inventory	33	-	-	-	-	-	33
Other income	1,803	1,151	6,349	2	98	-	9,403
Total revenue	**96,873**	**145,718**	**108,447**	**895**	**98**	**(116,013)**	**236,018**
Production cost	(62,640)	(136,368)	(73,684)	(684)	(143)	116,013	(157,505)
Personnel expense	(19,615)	(8,015)	(33,191)	(77)	(57)	-	(60,955)
Gross operating profit (EBITDA)	**14,618**	**1,335**	**1,572**	**134**	**(102)**	**-**	**17,557**
Amortization, depreciation, provisions and impairment losses	(1,139)	(632)	(6,445)	-	(1)	-	(8,217)
EBIT	**13,479**	**703**	**(4,873)**	**134**	**(103)**	**-**	**9,340**
Income (loss) on investments	-	-	-	-	-	-	-
Net financial income	(16)	73	631	4	-	-	692
Pre-tax profit	**13,463**	**776**	**(4,242)**	**138**	**(103)**	**-**	**10,032**
Income tax	(4,658)	(726)	6,447	(51)	28	-	1,040
Non-controlling interests	-	-	-	(18)	-	-	(18)
Profit from continuing operations attributable to the owners of the parent	**8,805**	**50**	**2,205**	**69**	**(75)**	**-**	**11,054**
Profit / (loss) from discontinued operations	-	-	-	-	-	(1)	(1)
Profit	**8,805**	**50**	**2,205**	**69**	**(75)**	**(1)**	**11,053**

2014 (€ thousands)	Magazine Publishing	Advertising	TV publishing (La7)	Trovatore	Network operator (Cairo Network)	Intra-group and unallocated	Total
Gross operating revenue	96,708	181,332	110,913	834	-	(123,773)	266,014
Advertising agency discounts	-	(25,748)	-		-	-	(25,748)
Net operating revenue	**96,708**	**155,584**	**110,913**	**834**	**-**	**(123,773)**	**240,266**
Change in inventory	(28)	-	-		-	-	(28)
Other income	1,321	919	9,323	62	2	-	11,627
Total revenue	**98,001**	**156,503**	**120,236**	**896**	**2**	**(123,773)**	**251,865**
Production cost	(65,098)	(144,026)	(77,016)	(673)	(8)	123,773	(163,048)
Personnel expense	(19,120)	(7,251)	(34,221)	(42)	-	-	(60,634)
Gross operating profit (EBITDA)	**13,783**	**5,226**	**8,999**	**181**	**(6)**	**-**	**28,183**
Amortization, depreciation, provisions and impairment losses	(1,261)	(1,181)	(2,778)	-	(1)	-	(5,221)
EBIT	**12,522**	**4,045**	**6,221**	**181**	**(7)**	**-**	**22,962**
Income / (loss) on investments	-	(2)	-	-	-	-	(2)
Net financial income	17	390	1,423	(1)	-	-	1,829
Pre-tax profit	**12,539**	**4,433**	**7,644**	**180**	**(7)**	**-**	**24,789**
Income tax	(4,502)	(1,795)	5,385	(61)	-	-	(973)
Non-controlling interests	-	-	-	(24)	-	-	(24)
Profit from continuing operations attributable to the owners of the parent	**8,037**	**2,638**	**13,029**	**95**	**(7)**	**-**	**23,792**
Profit / (loss) from discontinued operations	-	-	-	-	-	(1)	(1)
Profit	**8,037**	**2,638**	**13,029**	**95**	**(7)**	**(1)**	**23,791**

Gross operating revenue in 2015, split up by main business segment, can be analyzed as follows versus the amounts of 2014:

Gross revenue (€ thousands)	**2015**						
	Magazine publishing	**Advertising**	**TV publishing (La7)**	**Trovatore**	**Network operator (Cairo Network)**	**Intra-group eliminations and unallocated**	**Total**
Magazine over-the-counter sales	72,557	-	-	-	-	-	72,557
Print media advertising	20,106	26,675	-	-	-	(19,865)	26,916
TV advertising	-	137,427	98,706	-	-	(94,284)	141,849
Stadium signage	-	3,057	-	-	-	-	3,057
Internet advertising	-	828	971	552	-	(1,021)	1,330
Revenue from concession of programming schedule spaces	-	-	1,200	-	-	-	1,200
Other TV revenue	-	-	1,221	-	-	-	1,221
Subscriptions	2,831	-	-	-	-	-	2,831
Books and catalogues	971	-	-	-	-	-	971
Other revenue	4	601	-	341	-	(843)	103
VAT relating to publications	(1,432)	-	-	-	-	-	(1,432)
Total gross operating revenue	**95,037**	**168,588**	**102,098**	**893**	**-**	**(116,013)**	**250,603**
Other revenue	1,803	1,151	6,349	2	98	-	9,403
Total revenue	**96,840**	**169,739**	**108,447**	**895**	**98**	**(116,013)**	**260,006**

Gross revenue (€ thousands)	**2014**						
	Magazine publishing	**Advertising**	**TV publishing (La7)**	**Trovatore**	**Network operator (Cairo Network)**	**Intra-group eliminations and unallocated**	**Total**
Magazine over-the-counter sales	73,400	-	-	-	-	-	73,400
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	980	-	-	-	-	-	980
Other revenue	-	602	-	340	-	(842)	100
VAT relating to publications	(1,486)	-	-	-	-	-	(1,486)
Total gross operating revenue	**96,708**	**181,332**	**110,913**	**834**	**-**	**(123,773)**	**266,014**
Other revenue	1,321	919	9,323	62	2	-	11,627
Total revenue	**98,029**	**182,251**	**120,236**	**896**	**2**	**(123,773)**	**277,641**

The main figures of the consolidated **statement of financial position** at 31 December 2015 can be analyzed versus the situation at 31 December 2014:

(€ thousands)	**31/12/2015**	**31/12/2014**
Statement of financial position		
Property, plant and equipment	3,080	3,069
Intangible assets	60,917	56,871
Financial assets	1,702	1,175
Deferred tax assets	4,186	3,983
Net current assets	(17,438)	(19,071)
Total assets	**52,447**	**46,027**
Non-current borrowings and provisions	41,973	43,741
(Net financial position)/Net debt	(105,776)	(124,061)
Equity attributable to the owners of the parent	116,196	126,311
Equity attributable to non-controlling interests	54	36
Total equity and liabilities	**52,447**	**46,027**

At their Meeting on 28 April 2015, the shareholders approved the distribution of a dividend of 0.27 Euro per share, inclusive of tax, with coupon detachment date on 11 May 2015.

It should be noted that in the consolidated financial statements for the year ended 31 December 2013, the acquisition of La7 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.p.A. (former 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 and 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 consolidated **net financial position** at 31 December 2015, versus the situation at 31 December 2014, can be summarized as follows:

(€ thousands)	31/12/2015	31/12/2014	Change
Cash and cash equivalents	125,776	149,061	(23,285)
Current financial assets	-	-	-
Bank loans	(20,000)	(25,000)	5,000
Total	**105,776**	**124,061**	**(18,285)**

The bank loan 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.

To analyze the major financial indicators, the consolidated asset structure at 31 December 2015 can be examined using a reclassified statement showing increasing liquidity/settlement:

(€ thousands)	31/12/2015	31/12/2014
Non-current assets		
Property, plant and equipment and intangible assets	63,997	59,940
Financial assets	1,702	1,175
Deferred tax assets	4,186	3,983
Total non-current assets	**69,885**	**65,098**
Current assets		
Inventories	3,141	3,296
Trade receivables (unavailable liquid funds)	78,539	79,957
Other unavailable liquid funds	8,464	14,969
Total current operations assets	**90,144**	**98,222**
Available liquid funds	125,776	149,061
Total current assets	**215,920**	**247,283**
Invested capital	**285,805**	**312,381**
Equity attributable to owners of the parent	**116,250**	**124,347**
Consolidated liabilities		
Post-employment benefits and provisions for risks and charges	41,973	43,741
Non-current borrowing liabilities	15,000	20,000
Total consolidated liabilities	**56,973**	**63,741**
Current liabilities		
Current operating liabilities	107,582	117,293
Current borrowing liabilities	5,000	5,000
Total current liabilities	**112,582**	**122,293**
Financing capital	**285,805**	**312,381**
Profit	11,053	23,791
Operating profit (EBIT)	9,340	22,962
Sales	226,582	240,266

An analysis of the financial position of the Group using the main financial indicators indicates that the Cairo Communication Group is suitably capitalized to maintain financial equilibrium in the medium/long term and has a very sound equity position as it has significant cash resources, and generates positive results in its traditional segments, and can finance its current operations even within the dynamics of its current assets. Looking at the TV publishing segment, in 2016, the Group will continue to work on strengthening the results of the rationalization and cost-curbing measures achieved in 2013 and 2015.

(€ thousands)	Description	31/12/2015	31/12/2014
Solvency indicators			
Current assets less current liabilities margin	Current assets-current liabilities	103,338	124,990
Current assets less current liabilities ratio	Current assets /current liabilities	1.92	2.02
Treasury margin	(Unavailable liquid funds + available liquid funds)-current liabilities	100,197	121,694
Treasury ratio	(Unavailable liquid funds + available liquid funds)/current liabilities	1.89	2.00
Non-current asset financing indicators			
Own funds less fixed assets margin	Own funds – non-current assets	46,365	61,249
Own funds less fixed assets ratio	Equity /non-current assets	1.7	1.9
Own funds plus non-current liabilities less non-current assets margin	(Own funds+ non-current liabilities) – non-current assets	88,338	104,990
Own funds plus non-current liabilities less non-current assets ratio	(Own funds+ non-current liabilities)/	2.3	2.6
Financing structure indicators			
Total debt ratio	(non-current + current liab.)/own funds	1.5	1.5
Financing debt ratio	Third-party funds/Own funds	0.2	0.2
Current operating assets - current operating liabilities		(17,438)	(19,071)
Profitability indicators			
ROE	Profit /Own funds	9.5%	18.8%
ROI	(Inv. op. capital – op. liabilities)	5.2%	11.8%
Other indicators			
Receivables turnover		105	101

Solvency indicators (liquidity) represent the ability of the company to maintain short-term financial equilibrium, to meet short-term outflows (current liabilities) with existing cash (available liquid funds) and short-term inflows (unavailable liquid funds). Specifically, available and unavailable liquid funds fully cover current liabilities. The statement is used to analyze overall dynamics and origins of cash movements.

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

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

Specifically, these indicators, overall, disclose that there are no risks related to stability in the composition of the assets and liabilities/equity.

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

As further non-financial key performance indicators, the Group mainly uses data relating to circulation and audience ratings that indicate the "success" of each title and programme.

Performance for weeklies and monthlies may be analyzed as follows:

Weeklies	**Dipiu'**	**Diva & donna**	**Dipiu' TV**	**Dipiu' TV Cucina**	**Nuovo**	**F**	**TV Mia**
ADS average 2015	523,754	194,562	319,409	153,067	219,092	125,892	143,864
ADS average 2014	536,601	202,572	335,709	164,151	213,816	136,755	154,109

Monthlies	**For Men Magazine**	**Natural Style**	**Bell'Italia**	**Bell'Europa**	**In Viaggio**	**Airone**	**Gardenia**
ADS average 2015	45,779	49,793	51,033	24,071	21,473	55,431	56,014
ADS average 2014	54,894	50,866	51,808	26,727	26,126	61,544	56,298

These figures show how circulation managed to hold ground, despite the tough market in 2015.

In 2015, La7's average all-day share was 3.06% and 3.7% in prime time (from 8:30 PM to 11:30 PM), with a high-quality target audience. La7d's share was 0.51%. The audience figures of the channel's news and discussion programmes - such as the 8 PM newscast (5.1% from Monday to Friday), "Otto e mezzo" (5.1%), "Piazza Pulita" (4.4%), "Crozza nel Paese delle Meraviglie" (7.5%) "Servizio Pubblico" (5.5%), "Le invasioni Barbariche" (3%), "Coffee Break" (4.4%), "Omnibus" (4.3%), "La Gabbia" (3.5%), "L'aria che tira" (5.5%), "Bersaglio Mobile" (4%), "Di martedì" (5.3%), "In Onda" (4%), and "L'Aria d'estate" (4.6%) - were positive.

Cairo Communication S.p.A. – Parent performance

The main **income statement figures of Cairo Communication S.p.A.** in 2015 can be compared as follows versus those in 2014:

(€ thousands)	31/12/2015	31/12/2014
Gross operating revenue	106,026	116,595
Advertising agency discounts	-	-
Net operating revenue	**106,026**	**116,595**
Other revenue and income	528	350
Total revenue	**106,554**	**116,945**
Production cost	(101,646)	(108,636)
Personnel expense	(3,045)	(2,990)
Gross operating profit (EBITDA)	**1,863**	**5,319**
Amortization, depreciation, provisions and impairment losses	(259)	(290)
EBIT	**1,604**	**5,029**
Net financial income	23	365
Income (loss) on investments	7,218	7,084
Pre-tax profit	**8,845**	**12,478**
Income tax	(735)	(1,891)
Profit from continuing operations	**8,110**	**10,587**
Loss from discontinued operations	(1)	(1)
Profit	**8,109**	**10,586**

In 2015, 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 106.5 million (Euro 116.9 million in 2014);
- parent gross operating profit (EBITDA) was approximately 1.9 million (Euro 5.3 million in 2014);
- operating profit (EBIT) was approximately Euro 1.6 million (Euro 5 million in 2014);
- profit was approximately Euro 8.1 million (Euro 10.6 million in 2014).

"Income (loss) on investments" includes the dividends approved by the subsidiary Cairo Editore, amounting to Euro 7.5 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 2014, it included the dividends approved by 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.

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

(€ thousands)	**31/12/2015**	**31/12/2014**
Statement of comprehensive income of the Parent		
Profit	**8,109**	**10,586**
Other non-reclassifiable items of the comprehensive income statement		
Actuarial profit (loss) from defined benefit plans	28	(135)
Tax effect	(8)	37
Total comprehensive income	**8,129**	**10,488**

The main figures of the **statement of financial position** at 31 December 2015 can be analyzed versus the situation at 31 December 2014:

(€ thousands)	**31/12/2015**	**31/12/2014**
Statement of financial position		
Property, plant and equipment	368	457
Intangible assets	296	320
Financial assets	23,027	23,124
Other non-current financial assets	8,963	1,663
Net current assets	3,908	7,325
Total assets	**36,562**	**32,889**
Non-current borrowings and provisions	1,452	1,485
(Net financial position)/Net debt	(9,039)	(25,768)
Equity	44,149	57,172
Total equity and liabilities	**36,562**	**32,889**

As mentioned in the notes to the consolidated statement of financial position, at their Meeting on 28 April 2015, the shareholders approved the distribution of a dividend of 0.27 Euro per share, inclusive of tax, with coupon detachment date on 11 May 2015.

The increase in "other non-current financial assets", amounting to Euro 7.3 million, is attributable to the shareholder loan granted to the subsidiary Cairo Network S.r.l.

The **net financial position** of the Parent at 31 December 2015, versus the situation at 31 December 2014, is summarized as follows:

(€ thousands)	31/12/2015	31/12/2014	Change
Cash and cash equivalents	9,039	25,768	(16,729)
Current financial assets	-	-	-
Total	**9,039**	**25,768**	**(16,729)**

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

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

(€ thousands)	Equity	Net profit
Financial statements of Cairo Communication S.p.A.	**44,149**	**8,109**
<u>Elimination of the carrying amount of consolidated equity investments:</u>		
Difference between carrying amount of investments and their equity value	113,225	
Share in subsidiaries' profit net of investment impairment losses		276
Effects of the purchase price allocation of La7 S.p.A.	(29,462)	9,952
<u>Allocation of excess consideration paid:</u>		
Goodwill	7,198	
Elimination of intra-group profits net of income tax	(18,914)	181
Elimination of intra-group dividends		(7,465)
Consolidated financial statements of Cairo Communication S.p.A.	**116,196**	**11,053**

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

PRINT MEDIA PUBLISHING

CAIRO EDITORE - CAIRO PUBLISHING

The results achieved by Publishing in 2015 can be analyzed as follows:

Publishing (€ thousands)	**31 December 2015**	**31 December 2014**
Operating revenue	95,037	96,708
Other income	1,803	1,321
Change in inventory	33	(28)
Total revenue	**96,873**	**98,001**
Production cost	(62,640)	(65,098)
Personnel expense	(19,615)	(19,120)
Gross operating profit (EBITDA)	**14,618**	**13,783**
Amortization, depreciation, provisions and impairment losses	(1,139)	(1,261)
EBIT	**13,479**	**12,522**
Income (loss) on investments	-	-
Net financial income	(16)	17
Pre-tax profit	**13,463**	**12,539**
Income tax	(4,658)	(4,502)
Non-controlling interests		-
Profit from continuing operations attributable to the owners of the parent	**8,805**	**8,037**
Loss from discontinued operations	-	-
Profit	**8,805**	**8,037**

In 2015, 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:

- Cairo Editore continued its growth strategy by launching “Nuovo TV”, the new TV weekly led by Riccardo Signoretti, out on newsstands from 21 September 2015; in the first 22 issues, it posted average sales of approximately 142 thousand copies, highly satisfactory results in line with forecasts;
- the operating results of the Group’s publishing segment increased sharply versus 2014, despite incurring total costs of approximately Euro 1.4 million in September and October to launch the new weekly;
- the period under review basically confirmed the excellent circulation results, with revenue reaching Euro 72.6 million (Euro 73.4 million in 2014);

- Group gross advertising sales, which reached Euro 26.1 million, dropped by approximately 4% versus Euro 27.2 million in 2014.

In 2015, gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro 14.6 million and approximately Euro 13.5 million, up by approximately 6.1% and 7.7% versus 2014 (Euro 13.8 million and Euro 12.5 million), despite total costs of Euro 1.4 million incurred to launch the new weekly.

The Group weeklies confirmed the excellent circulation results achieved, with an average ADS circulation in the January-December twelve-month period of 2015 of 523,754 copies for “Settimanale DIPIU”, 319,409 copies for “DIPIU’ TV”, 153,067 copies for “Settimanale DIPIU’ e DIPIU’TV Cucina”, 194,562 copies for “Diva e Donna”, 219,092 copies for “Settimanale Nuovo”, 125,892 copies for “F”, 143,864 copies for “TVMia” and 110,105 copies for “Settimanale Giallo”, reaching a total of approximately 1.8 million average copies sold, and making the Group the leading publisher in copies of weeklies sold at newsstands, with an approximately 28% market share. Taking also into account the average sales of “Nuovo TV” in the first 22 issues, overall copies sold increase to approximately 1.9 million.

Thanks also to the results achieved by “Nuovo TV", 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 sales of approximately 165 thousand copies in the first 5 issues.

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 2015, gross advertising revenue generated by the Group’s publications accounted for 26% (26% in 2014 too) - an extremely low figure, therefore based to a lesser extent on the economic cycle - while the remaining 74% (74% in 2014 too) 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 2016, Cairo Editore will continue its growth strategy with the launch of new products, and will continue to 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 2015 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" and "Nuovo TV"), 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.

The results achieved by Advertising in 2015 can be analyzed as follows:

Advertising (€ thousands)	**31 December 2015**	**31 December 2014**
Gross operating revenue	168,588	181,332
Advertising agency discounts	(24,021)	(25,748)
Net operating revenue	**144,567**	**155,584**
Other income	1	919
Change in inventory	1,151	-
Total revenue	**145,718**	**156,503**
Production cost	(136,368)	(144,026)
Personnel expense	(8,015)	(7,251)
Gross operating profit (EBITDA)	**1,335**	**5,226**
Amortization, depreciation, provisions and impairment losses	(632)	(1,181)
EBIT	**703**	**4,045**
Income (loss) on investments	-	(2)
Net financial income	73	390
Pre-tax profit	**776**	**4,433**
Income tax	(726)	(1,795)
Non-controlling interests	-	-
Profit from continuing operations attributable to the owners of the parent	**50**	**2,638**
Loss from discontinued operations	-	-
Profit for the year	**50**	**2,638**

In 2015, total gross advertising revenue, which includes TV advertising revenue invoiced directly by La7 (Euro 5.4 million), came to approximately Euro 173 million (Euro 187.5 million in 2014). Gross advertising sales on La7 and La7d channels amounted to Euro 140.1 million (Euro 152.9 million in 2014); specifically, thanks to the results achieved in December, the performance of advertising sales (approximately -3%) in 4Q15 showed a marked improvement versus the first nine months of the year (over -10%);

Gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 1.3 million and Euro 0.7 million (Euro 5.2 million and Euro 4 million in 2014).

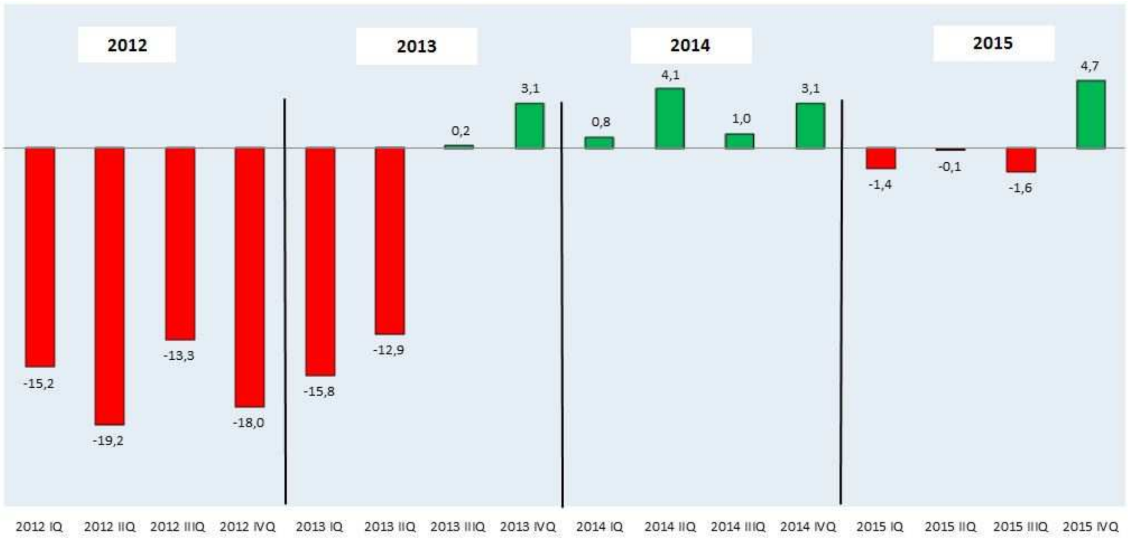
TV PUBLISHING (La7)

The Group started operations in the TV field in 2013, following acquisition from Telecom Italia Media S.p.A. of the entire share capital of La7 S.p.A. (former 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) of Euro 3.7 million, and strengthened in 2014 and in 2015 the results of the cost rationalization measures implemented, succeeding in achieving in 2014 a positive gross operating profit (EBITDA) of Euro 9 million and, in 2015, despite the drop in advertising revenue, a positive gross operating profit (EBITDA) of Euro 1.6 million.

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



The results achieved by TV Publishing (La7) in 2015 can be analyzed as follows:

TV publishing (€ thousands)	**31 December 2015**	**31 December 2014**
Gross operating revenue	102,098	110,913
Other income	-	-
Change in inventory	6,349	9,323
Total revenue	**108,447**	**120,236**
Production cost	(73,684)	(77,016)
Personnel expense	(33,191)	(34,221)
Gross operating profit (EBITDA)	**1,572**	**8,999**
Amortization, depreciation, provisions and impairment losses	(6,445)	(2,778)
EBIT	**(4,873)**	**6,221**
Income (loss) on investments	-	-
Net financial income	631	1,423
Pre-tax profit	**(4,242)**	**7,644**
Income tax	6,447	5,385
Non-controlling interests	-	-
Profit attributable to owners of the parent	**2,205**	**13,029**

In 2015, the TV publishing segment (La7) achieved a positive gross operating profit (EBITDA) of approximately Euro 1.6 million. Operating profit (EBIT) came to a negative figure of approximately Euro 4.9 million and benefited in the consolidated financial statements from lower amortization and depreciation of Euro 9.2 million, due to the write-down of tangible and intangible assets made in 2013 in the purchase price allocation of the investment in La7. The increase in "amortization, depreciation, provisions and impairment losses" is attributable to the amortization of television rights acquired by La7 effective from 1 May 2013. In 2014, 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;

Specifically, in 4Q15, the Group's TV publishing segment achieved a positive gross operating profit (EBITDA) of approximately Euro 4.7 million, up by approximately 50% versus the figure achieved in 4Q14, due also to the trend in advertising sales on La7 and La7d channels in December, up by more than 10% versus December 2014. Operating profit (EBIT) came to a positive figure of approximately Euro 2.8 million, and in 4Q15 benefited in the consolidated financial statements from lower amortization and depreciation of Euro 1.3 million, due to the write-down of tangible and intangible assets made in 2013 in the purchase price allocation of the investment in La7. In 4Q14, gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro 3.1 million and Euro 2.4 million. Operating profit (EBIT) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 2.8 million.

In 2015, La7's average all-day share was 3.06% and 3.7% in prime time (from 8:30 PM to 11:30 PM), with a high-quality target audience. La7d's share was 0.51%. The audience figures of the channel's news and discussion programmes - such as the 8 PM newscast (5.1% from Monday to Friday), "Otto e mezzo" (5.1%), "Piazza Pulita" (4.4%), "Crozza nel Paese delle Meraviglie" (7.5%) "Servizio Pubblico" (5.5%), "Le invasioni Barbariche" (3%), "Coffee Break" (4.4%), "Omnibus" (4.3%), "La Gabbia" (3.5%), "L'aria che tira" (5.5%), "Bersaglio Mobile" (4%), "Di martedì" (5.3%), "In Onda" (4%), and "L'Aria d'estate" (4.6%) - were positive.

At end 2015, with a view to focusing activities also at Group level, La7 chose WebSystem 24 (24 ORE Group) for the exclusive management of advertising sales on the websites La7.it, TgLa7.it, La7d.it and on the apps TgLa7 and Crozza nel Paese delle Meraviglie, in order to also speed up revenue growth in its digital business. The contract expires on 31 December 2016 and is renewable for a further year, subject to the achievement of important pre-established annual advertising revenue targets.

On 23 February 2016, the Extraordinary General Meeting of La7 S.r.l. approved its transformation into a joint-stock company; the registered office, corporate object, share capital and the duration remain unchanged.

IL TROVATORE

In 2015, Il Trovatore continued operations, mainly providing technological services to develop and maintain the online platforms of the Group’s companies.

NETWORK OPERATOR (CAIRO NETWORK)

As mentioned earlier, in 2014 the subsidiary Cairo Network took part in the tender procedure opened by the Ministry of Economic Development for the assignment of rights to use TV frequencies for digital terrestrial broadcasting systems, submitting its binding bid and winning the rights to use a lot of frequencies (“mux") for a period of 20 years.

In January 2015, Cairo Network and EI Towers S.p.A. (“EIT”) entered into the agreements firstly for the realization and then long-term technical management in full service mode (hospitality, service and maintenance, use of broadcasting infrastructure, etc.) of the mux.

Alternative performance indicators

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

The alternative indicators are:

EBITDA: used by Cairo Communication as a target to monitor internal management, and in public presentations (to financial analysts and investors). It 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

<u>EBITDA – Operating profit, before amortization, depreciation, write-downs and impairment losses</u>

The Cairo Communication Group also considers **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 above, 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.

Transactions with parents, subsidiaries and associates

In 2015, 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.

Information on transactions with related parties is disclosed in <u>Note 34</u> to the consolidated financial statements and in <u>Note 28</u> of the separate financial statements.

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

<u>Risks associated with the general economic climate</u>

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

In 2015, the general economic and financial climate, marked by a high degree of uncertainty, continued to show its negative effects, creating an increasingly complex competitive scenario. To date, there remains uncertainty over the period required for a return to normal market conditions.

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

To challenge the tough market scenario, the Group implemented, starting in previous periods, and also in 2015, a series of measures to increase efficiency and effectiveness of the production, publishing and distribution processes, and will continue in 2016 to benefit from the high levels of efficiency achieved. Looking at the TV publishing segment, in 2016, the Group will continue to work on strengthening the results of the rationalization and cost-curbing measures achieved in 2013-2015.

<u>Risks associated with advertising and publishing market trends</u>

In 2015, the persisting short and medium-term economic uncertainty impacted negatively on the advertising market.

Based on AC Nielsen figures, in 2015 advertising investments in Italy amounted to approximately Euro 6.3 billion, down 0.5% versus 2014 (specifically, -4.1% the magazine advertising market and +0.7% the TV advertising market). The Cairo Communication Group holds approximately 3.9% of the TV advertising market (4.4% in 2014) and approximately 5.7% of the magazine advertising market (5.7% in 2014). This market share leaves the Group room enough for growth, given the high quality and significant distribution of its own titles, in particular weeklies, and of the TV resources (own and under concession), quality, circulation and audience ratings that provide significant competitive edge.

The economic climate has slowed the pace of the sale of dailies and magazines. Despite the challenging market, in 2015, it confirmed the remarkable circulation results, with revenue at Euro 72.6 million versus Euro 73.4 million in 2014.

Advertising

The Cairo Communication Group is significantly exposed to advertising sales performance, which has progressively decreased over time as a result of significant developments in the publishing business. Advertising sales are currently the main source of revenue for the TV publishing segment.

Advertising sales of the advertising segment today represent approximately 65% (approximately 65% in 2014) of total Group revenue. Considering also advertising revenue directly generated by La7 (approximately Euro 5.4 million), the impact of advertising revenue increases to 67% (approximately 68% in 2014).

Considering the Group’s publishing business alone, advertising revenue in 2015 accounted for 26% - an extremely low percentage, therefore based to a lesser extent on the economic cycle -

while the remaining 74% was generated by distribution and subscription revenue, demonstrating the great publishing strength of advertising products.

The sale of advertising space is monitored daily by reference to the percentage saturation of the catchment time, average sales price and the variation from forecasts. Daily monitoring also provides/enables a review of the sales forecasts by month in order to act – with reference to print media – on advertising pages and thus on the structure of product costs.

Management's attention is focused on the definition of strategy and commercial policy to ensure an effective presentation of the high value of the product offering. The features of the resources offered represent strength for the Group in the current competitive climate.

La7 boasts an exceptional audience profile, particularly appealing in terms of advertising.

Regarding Group titles, the remarkable distribution volumes, in absolute terms and considering competition, which enabled the Group to become the leading publisher of weeklies by copies sold on newsstands, net of weeklies attached to dailies, make the advertising pages appealing in terms of advertising cost per copy sold (equal to the ratio between the price of the advertising page and the copies sold), which is currently lower than competition.

Distribution

Regarding distribution, the features of the products published by the Group as well as its strategy, are such as to build a significant competitive edge in the current climate of the publishing segment. This is largely explained by the fact that:

- cover prices of the weeklies are lower, some significantly lower than those of the main competitors;
- sales are mostly over-the-counter (95%), with a minimum impact (approximately 2% on total publishing revenue, including advertising) of revenue generated by gifts and sundry editorial materials;
- weekly magazines, which account for approximately 90% of the total publishing segment revenue, are sold as single copies and not bundled with other weeklies and/or dailies to bolster sales.

Risks associated with extraordinary transactions

As mentioned earlier, the Group started operations in the TV field in 2013, following acquisition from Telecom Italia Media S.p.A. of the entire share capital of La7 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) of Euro 3.7 million, and strengthened in 2014 and in 2015 the results of the cost rationalization measures implemented, succeeding in achieving in 2014 a positive gross operating profit (EBITDA) of Euro 9 million and, in 2015, despite the drop in advertising revenue, a positive gross operating profit (EBITDA) of Euro 1.6 million.

In 2016, the Group will continue to work on strengthening the results of the rationalization and cost-curbing measures achieved in 2013-1514.

Risks associated with developments in the media segment

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

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

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

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

Risks associated with Management and "key staff"

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

Editors and TV personalities, too, have a significant role in the titles published and programmes hosted.

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

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

The Cairo Communication Group publishes a number of highly successful Italian weeklies, "Settimanale Dipiù" (523,754 copies), "DipiùTV" (319,409 copies), "Settimanale Dipiù e DipiùTV Cucina" (153,067 copies), "TVMia" (143,864 copies) "Diva & Donna" (194,562 copies), "Settimanale Nuovo" (219,092 copies), "F" (125,892 copies), Settimanale Giallo" (110,105 copies) and "Nuovo TV" (approximately 142,000 copies in the first 22 issues). Among the monthlies, "Gardenia", "Bell'Italia", "For Men Magazine", "Natural Style" and "Arte" are leaders in their own segment.

The audience figures of the channel's news and discussion programmes - such as the 8 PM newscast (5.1% from Monday to Friday), "Otto e mezzo" (5.1%), "Piazza Pulita" (4.4%), "Crozza nel Paese delle Meraviglie" (7.5%) "Servizio Pubblico" (5.5%), "Le invasioni Barbariche" (3%), "Coffee Break" (4.4%), "Omnibus" (4.3%), "La Gabbia" (3.5%), "L'aria che tira" (5.5%), "Bersaglio Mobile" (4%), "Di martedì" (5.3%), "In Onda" (4%), and "L'Aria d'estate" (4.6%) - were positive.

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

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

Risks associated with business with suppliers

A number of the Group's production processes, particularly magazine printing and use of broadcasting capacity in the TV publishing segment, are outsourced. The outsourcing of production processes requires close cooperation with the suppliers which, on one hand, can result in economic benefits in terms of flexibility, efficiency and cost reduction, but on the other hand, results in the Group's reliance on these suppliers.

Risks associated with legal and regulatory developments

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

With regard to the Automatic Numbering Plan, the numbers currently in use (7 for La7 and 29 for La7d) are those assigned by the Ministry of Economic Development in 2010, under AGCOM resolution 366/2010/CONS. The Resolution had been challenged by Telenorba and other local broadcasters, with partial annulment specifically regarding the assignment of numbers 7-8 and 9 by the Council of State through Ruling 4660/12.

On 21 March 2013, the Communications Authority (AGCOM) unanimously approved the New Automatic Numbering Plan for digital terrestrial television (LCN) by Decision 237/13/CONS. The decision confirmed, for national traditional broadcasters, the assignment of numbers 0-9 of the first block of LCN numbering (see p. 39-40 and 44 of AGCOM Decision no. 237/13/CONS).

Deeming that the New Plan evaded the Council of State's ruling (given that it confirmed assignment to the national traditional broadcasters of numbers 0-9 in the first block of LCN numbering), Telenorba filed an appeal for compliance with ruling n. 4660/12. The appeal was upheld by the Council of State (ruling no. 6021 of 16 December 2013), which declared the New Numbering Plan void (pursuant to Resolution 237/2013) for numbers from 8 to 9, and appointed a special commissioner tasked with verifying the correct assignment of numbers from 8 to 9 within 90 days from the beginning of the proceedings, which started on 24 February 2014. However, since the partial annulment of the previous Plan initially included number 7, on initiation of the procedure, the special commissioner - inappropriately in the opinion of La7 - also referred to number 7, which instead, under the Ruling, is not subject to verification by the

Commissioner. AGCOM has in the meantime re-extended the previous Plan (based on current assignments), as also suggested in the State Council's ruling, in order to avoid a regulatory void.

In execution of ruling no. 6021, the Special Commissioner launched a public consultation on an outline provision named "Automatic numbering plan of digital terrestrial free-to-air and pay TV channels, procedures for allocating numbers to providers of audiovisual services authorized to broadcast audiovisual content using digital terrestrial technology and relating conditions of use." Telenorba, All Music and AGCOM have challenged the acts adopted by the Commissioner, lodging enforcement reviews and claims before the State Council (the court of compliance), arguing that the Commissioner had exceeded the requirements of sentence no. 6021 of 2013.

Following orders n. 5041, 5127 and 5859 of 2014 and n. 27 of 2015, under which the Council of State has given the Commissioner certain regulations to discharge the task, the Commissioner adopted a new outline provision (no. 7 of 2015), accompanied by an explanatory report.

With such orders, deeming his task completed, the Commissioner stated that LCN numbers 7, 8 and 9 established by AGCOM in the first plan of 2010 (Resolution no. 366/2010/CONS) should be confirmed. Specifically, the Commissioner determined that: a) in light of user preferences and habits at the time of the switch-off, numbers 7, 8 and 9 were to be assigned to a national broadcaster; b) in March 2010, seven national private commercial analogue broadcasters and three public channels were in operation (including La7); c) 9 broadcasters had a generalist schedule (including La7).

Telenorba lodged a complaint with the Council of State requesting the annulment of or a declaration of invalidity and/or ineffectiveness of the Special Commissioner's Resolution No. 7 of 2015, and relating annexes (and of any other resolutions adopted by the Commissioner to the extent that Telenorba is concerned). All Music also lodged a complaint against the resolution and the report recently adopted by the Commissioner.

Through sentence no. 432 of 2016, the Council of State ruled for the fairness of the Commissioner's provision, specifically on the point where all three positions - 7, 8, 9 - were to be assigned to national, not local, broadcasters, and confirmed that Telenorba, as a local broadcaster, had no entitlement to be assigned any such positions.

Through concurrent ruling no. 1836 of 2016, the joint session of the Court of Cassation overturned ruling no. 6021 of 2013 of the Council of State (which, as explained, had annulled

AGCOM's 2013 Plan and had appointed the Commissioner), owing to violation of the outer limits of administrative jurisdiction.

To date, the effects of the Court of Cassation's ruling on AGCOM activities (and the Commissioner's) are difficult to predict, especially with regard to the effectiveness of AGCOM resolutions no. 366/2010/ Cons and no. 237/13/Cons.

In any case, in the opinion of La7 and its legal advisers, further assessments on number 7 are unlikely to be made, nor will the allocation of this number to La7 be revoked.

<u>Liquidity risk</u>

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 105.8 million whilst on the other hand, it generates positive results in its traditional segments, and can finance its current operations within the dynamics of its current assets, even in the current market. An analysis of the company's equity structure shows both liquidity, or the ability to maintain financial stability in the short term, and solidity, or the ability to maintain financial stability in the medium/long term.

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

<u>Interest rate and currency risk</u>

The Cairo Communication Group is not exposed to interest rate and currency risk, in that on one hand, the net financial position shows a positive figure, while on the other hand, Group operations are carried out exclusively in Italy, so all revenue is generated in Italy and main costs are incurred in Euro.

Interest rate risk only affects the yield on available cash.

Movements in the cash flows and the liquidity of Group companies are centrally monitored and managed by Group Treasury in order to guarantee effective and efficient management of financial resources.

Given the limited exposure to both interest rate and FOREX risk, the Group limited use of financial hedging instruments, to hedge currency risk on the acquisition of TV rights from film companies.

Credit risks

The Group is 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. In terms of concentration, the top 10 customers represent approximately 11% (12% in 2014) of total sales, whilst the top 100 customers represent 50% (54% in 2014). These ratios are basically in line with prior years.

The persisting uncertainty factors in the short and medium term, along with the resulting credit squeeze, may of course impact negatively the quality of credit and general payment terms.

The publishing segment, on the other hand, presents limited exposure to credit risk as publishing revenue is basically generated by one single party - the Group - while for distribution revenue, the distribution contract provides for an advance payment equal to a highly significant percentage of the estimated sales of each magazine.

The Group's maximum theoretical exposure to credit risks at 31 December 2015 is given by the carrying amount of trade receivables and other recognized current assets totaling Euro 83.8 million (88.4 million at 31 December 2014), and by the nominal amount of guarantees given on third-party debts or commitments as indicated in Note 33.

The credit risks associated with cash and cash equivalents, with a maximum theoretical exposure of Euro 125.8 million (Euro 149.1 million at 31 December 2014), are considered irrelevant as they are deposits spread across various banks.

Risks associated with litigation

The notes on "*other information*" (Note 33 to the consolidated financial statements) contain information on a number of cases of litigation. The evaluation of the potential legal and tax liabilities requires the Group to use estimates and assumptions in relation to forecasts made by the Directors, based upon the opinions expressed by the Group's legal and tax advisers, in relation to the probable cost that can be reasonably considered to be incurred. The actual results may vary from these estimates

Report on corporate governance and ownership structure

1 Issuer profile

Cairo Communication has adopted a traditional system of administration and control.

The Shareholders are the corporate body that expresses the will of the shareholders through its resolutions at its meeting. It typically appoints the Chairman.

The Board of Directors has the broadest management powers to achieve corporate objects, within the rules, including self-regulatory rules, that apply. Elected every three years at the Shareholders' Meeting, it appoints one or more Chief Executive Officers and determines their powers, and those of the Chairman.

The Remuneration Committee and the Control and Risk Committee, set up within the Board of Directors, comprise members of the Board of Directors and provide consultative and proposal-making functions to the Board of Directors. The bodies now also include the Related Party Committee, provided for by the procedures for related party transactions adopted in 2010. For the following reasons, it was deemed not to establish an Appointment Committee.

The Board of Statutory Auditors is the body with the functions of overseeing observance of the law and the company bylaws and management control.

The audit process is entrusted to an Audit Firm registered in the relevant professional roll and is the Company's external control body. The Firm checks, throughout the year, that the company's accounts are kept properly and that accounting entries accurately reflect its operation. It is also its responsibility to ensure that the separate and consolidated financial statements match the accounting entries and verifications performed, and that these accounting documents conform to the governing rules.

The duties and methods of operating of these corporate bodies are governed by the law and regulations, by the company bylaws and by the decisions adopted by relevant bodies, in conformity with the regulations set forth in the Corporate Governance Code drawn up by the Corporate Governance Committee of Borsa Italiana S.p.A. in July 2014[1].

The company bylaws are available at the registered office and in the corporate governance section on the Company's website www.cairocommunication.it.

2 Information on ownership structure (pursuant to art. 123 bis, paragraph 1 of the Consolidated Finance Act – TUF) at 14 March 2016

a) Share capital structure (pursuant to art. 123 bis, paragraph 1, letter a), T.U.F.)

[1]The version of the Corporate Governance Code for Listed Companies approved in July 2015 will come into effect, as provided for therein, by the end of the year beginning in 2016.

At 14 March 2016, the share capital of Cairo Communication S.p.A. was Euro 4,073,856.80, fully paid and subscribed, and it comprised 78,343,400 shares, with no indication of the nominal amount.

	N° shares	% of share capital	Listed	Rights and obligations
Ordinary shares	78,343,400	100%	Borsa Italiana Star Segment	In accordance with the law and company bylaws

No financial instruments have been issued attributing the right to subscribe to newly-issued shares.

No share incentive plans are foreseen involving share capital increases, even on a freely allocated basis.

b) Restrictions on transfer (pursuant to art. 123 bis, paragraph 1, letter b), T.U.F.)

There are no restrictions on the transfer of securities, except as required by the provisions of representation, legitimization, circulation of the company investment required for securities traded on regulated markets.

c) Significant shareholdings (pursuant to art. 123 bis, paragraph 1, letter c), T.U.F.)

At 14 March 2016, based on the information received pursuant to art. 120 of the T.U.F. and the update of the shareholders' register, the principal shareholders in Cairo Communication S.p.A. were as follows:

Declarer	Direct shareholder	% of ordinary capital	% of voting capital
URBANO ROBERTO CAIRO	U.T. COMMUNICATIONS S.p.A.	44.876%	44.876%
URBANO ROBERTO CAIRO	U.T. BELGIUM HOLDING S.A.	15.710%	15.710%
URBANO ROBERTO CAIRO	URBANO ROBERTO CAIRO	12.387%	12.387%

d) Securities carrying special rights (pursuant to art. 123 bis, paragraph 1, letter d), T.U.F.)

No securities carrying special controlling rights have been issued.

e) <u>Employee shareholdings: voting right procedures (pursuant to art. 123 bis, paragraph 1, letter e), T.U.F.)</u>

There are no employee shareholdings and/or voting rights procedures.

f) <u>Restrictions on voting rights (pursuant to art. 123 bis, paragraph 1, letter f), T.U.F.)</u>

There are no restrictions on voting rights other than those provided by law.

g) <u>Shareholders' agreements (pursuant to art. 123 bis, paragraph 1, letter g), T.U.F.)</u>

No shareholders' agreements are in place pursuant to art. 122 of the T.U.F.

h) <u>Change of control clauses (pursuant to art. 123 bis, paragraph 1, letter h), T.U.F.) and by-law provisions on takeover bids (pursuant to articles 104, paragraph 1 ter, and 104 bis).</u>

The Parent Company and/or its subsidiaries have signed no significant agreements that come into effect, are altered or terminate in the event of a change in the control of the contracting entity.

As explained in the notes to the statements in the consolidated financial statements (<u>Note 26</u>), the bank loan of initial Euro 25 million, granted by Unicredit S.p.A. in July 2014 to Cairo Network S.r.l. (wholly owned by Cairo Communication S.p.A.) for the purchase of the rights to use television frequencies, provides for early repayment in the event of a change of control of Cairo Network.

Moreover, the bylaws:

- do not depart from the provisions on the passivity rule provided by art. 104, paragraphs 1 and 2, of the TUF;
- do not provide for the enforcement of the neutralization rule set out in art. 104 bis, paragraphs 2 and 3, of the TUF.

i) <u>Delegations to increase share capital and authorization to acquire and dispose of treasury shares (pursuant to art. 123 bis, paragraph 1, letter m), T.U.F.)</u>

There are no delegations to increase the share capital pursuant to art. 2443 of the Italian Civil Code or to issue equity financial instruments.

At their meeting on 28 April 2015, after revoking a similar resolution adopted on 29 April 2014, the Shareholders approved the proposal to acquire and dispose of treasury shares in accordance with art. 2357 and subsequent articles of the Italian Civil Code, for the purpose of stabilizing the Company share price and sustaining liquidity, and, if deemed necessary by the Board of Directors, through an independent intermediary, of establishing a "shares stock" as provided in Consob regulation 16839/2009. The Board was authorized to acquire treasury shares up to the maximum number permitted by law, for a period of 18 months from the date of authorization, by use of available reserves, including the share premium reserve, as resulting from the last approved annual financial statements. Specifically, the Board of Directors will be authorized to acquire treasury shares on one or more occasions, acquiring shares directly on the market and through authorized intermediary – in accordance with the procedures provided by art. 144 bis, paragraph 1, letter b of the Issuer Regulations and relevant Instructions – and, in case such operations are carried out, according to accepted market practices, pursuant to the regulations introduced by Consob Resolution No. 16839/2009. Minimum price and maximum acquisition price per share are set at an amount equal to the average official purchase price of the share on Borsa Italiana S.p.A. for the 15 working days preceding the purchase, respectively reduced or increased by 20%. In case such operations are carried out according to accepted market practices under Consob Resolution 16839/2009, the purchase of treasury shares shall be subject to further limits, including price limits, provided therein. The Board was authorized to sell, on one or more occasions, any acquired treasury shares, setting the minimum sale price per share no lower than the minimum price calculated following the criteria adopted for their purchase. Should the treasury shares be sold according to accepted market practices under Consob Resolution 16839/2009, the sale of treasury shares shall be subject to further limits, including price limits, provided therein.

In 2015, as part of the share buy-back plans, no treasury shares were sold or purchased. At 31 December 2015, 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.

l) <u>Management and coordination</u>

Cairo Communication, though subject to rightful control by U.T. Communication S.p.A. – which is directly controlled by Urbano R. Cairo – is not subject to the management and coordination of such company, nor of any other entity. The Board of Directors of Cairo Communication has come to such conclusion taking account of the absence of further elements (with respect to mere control) that may lean towards the existence of a unitary direction and the circumstance that UT Communication S.p.A. is, de facto, a holding company and has never actually exercised any policy-making functions and/or interference in the management of the Issuer, restricting its activities to the management of its own controlling investment.

***

It should be noted that information prescribed by art. 123-bis, paragraph 1, **letter (i)** ("*agreements between the Company and the directors, members of the management board or supervisory board providing for indemnity in the event of resignation or unjust dismissal ….*" is found in the section of the Report on Remuneration, published pursuant to art. 123-ter of the TUF, and that there is no information to disclose under art. 123-bis, paragraph 1 **letter (l)**.

3 Compliance (pursuant to art. 123 bis, paragraph 2, letter a), T.U.F.)

The Cairo Communication Group has adopted a Corporate Governance Code for Listed Companies, the 2014 version[2] of the Corporate Governance Committee and promoted by Borsa Italiana, published on the website of Borsa Italiana at http://www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/codice2014.pdf. No Group company is subject to non-Italian law that would influence the structure of Corporate Governance.

4 Board of Directors

4.1 Appointment and replacement of directors and changes to the bylaws (pursuant to art. 123 bis, paragraph 1, letter h), T.U.F.)

The Board of Directors is appointed by the Shareholders on the basis of lists presented by shareholders pursuant to articles 14 and 15 of the bylaws.

Under the bylaws:

- lists must be filed with the registered office within the 25th day before the date on which the Shareholders' Meeting is called to decide on the appointment of the members of the Board of Directors, and made available to the public at the registered office, on the Company website and in accordance with the procedures provided for by the law and regulations, at least 21 days before the date of the Meeting;
- lists admitted to the voting are those submitted by shareholders who, either individually or jointly with other shareholders, represent at least 2.5% of the shares entitled to vote in the

[2] See note on p. 34.

ordinary meeting, or other minimum amount set by Consob, which was set at an amount equal to 2.5% by resolution 19499 of 28 January 2016). Ownership of the minimum stake required for submission of the lists is determined on the basis of the shares recorded in the name of the shareholder on the date the lists are filed with the Company. The relevant prescribed certification may also be submitted subsequent to the filing, provided submission is made within the time limit prescribed for publication of the lists;

- candidates shall appear in the lists in sequential order and shall be in a number no higher than the maximum amount of directors provided under the bylaws (eleven);
- each list must contain candidates possessing the requirements of independence referred to in art. 147-ter, paragraph 4, of the TUF, and further requirements set forth in the Corporate Governance Code of Borsa Italiana S.p.A., in the minimum amount established by the provisions of law and regulations, taking also into account the share listing segment, and where the number of candidates is equal to or higher than three, the minimum number of candidates of the less represented gender under the applicable law and regulations in force;
- in order to be admitted to the voting, each list must be accompanied by detailed information on the professional and personal qualifications of the candidates (including gender), by the statement on possession of the requirements of independence prescribed by law and by further requirements set forth in the Corporate Governance Code of Borsa Italiana S.p.A., and by indication of the identity of the shareholders who have submitted the lists and total percentage of shares held;
- for the purposes of the appointment of the directors, account is taken exclusively of lists that have received at least half the votes established by the bylaws for the submission of lists;
- Should more than one list receive at least half the votes as required by the bylaws for submission of the lists, candidates appointed to the position of director shall be those appearing in the list that has received the highest number of votes, except for the last candidate appearing in the list and the candidate appearing on top of the list that has received the second-highest number of votes that is in no way, even indirectly, connected with the shareholders that have submitted or voted the list that has received the highest number of votes, subject to the possession of the requirements of independence set forth in art. 148, paragraphs 3 and 4 of the TUF and of further requirements set forth in the Corporate Governance Code of Borsa Italiana S.p.A., failing which the appointed candidate, in his/her place, shall be the first candidate appearing in sequential order on the

list possessing the foregoing requirements of independence. Should two or more lists reach a tie, the prevailing list shall be the list possessing the largest shareholding or, in the event of a tie, the highest number of shareholders. Should only one list be submitted or should one list obtain a number of votes equal to at least half the votes set out in the bylaws for the submission of a list, all the directors shall be drawn from that list. Should no list obtain the percentage of votes set out in the above paragraph of this article, all directors shall be drawn from the list that has obtained the highest number of votes;

- according to the above procedure, should the number of directors of the less represented gender be less than the requirements of the laws in force, as many candidates as necessary, elected among those who have come last in the order of preference in the majority list shall be excluded, replacing them with the candidates possessing the necessary gender characteristics drawn from the same list, based on the sequential order of listing. Should this procedure fail to complete the number of directors to elect, the missing directors shall be immediately elected, in compliance with gender requirements – by the Shareholders' Meeting through a resolution passed by simple majority on the proposal of the attending shareholders;
- should no list be submitted or admitted, the directors shall be elected by the Shareholders' Meeting by relative majority vote, in compliance with the regulations in force on the less represented gender, in the context of the nominations submitted by the shareholders and filed with the registered office at least seven days before the date set for the Shareholders' Meeting on first call, together with the full information referred to in paragraph seven of this article.

<u>Succession planning</u>

To date, the Board has not adopted any succession plans regarding the executive directors. The Board of Directors is, in any event, the body empowered to prepare and manage early replacement.

4.2 <u>**Composition (pursuant to art. 123 bis, paragraph 2, letter d), T.U.F.)**</u>

At their meeting on 29 April 2014:

Board of Directors													Control and Risk Committee		Remuneration Committee		Related Party Committee	
Role	**Members**	**Year of birth**	**Date of first appointment ***	**From**	**Until**	**List ****	**Exec.**	**Non-exec.**	**Indep. as per Code**	**Indep. as per TUF**	**N. other posts *****	**%**	**	(*)	**	(*)	**	(*)
Chairman ◊	Urbano Cairo	1957	09/07/1997	01/01	31/12	M	X	-	-	-	-	5/5	-	-		-	-	-
CEO	Uberto Fornara	1959	22/04/1999	01/01	31/12	M	X	-	-	-	-	5/5	-	-	-	-	-	-
Director ·	Marco Pompignoli	1967	23/05/2003	01/01	31/12	M	X	-	-	-	-	5/5	-	-	-	-	-	-
Director	Laura Maria Cairo	1973	29/04/2014	01/01	31/12	M	-	X	-	-		5/5						
Director	Roberto Cairo	1965	22/04/1999	01/01	31/12	M	-	X	-	-	-	5/5	-	-	-	-	-	-
Director	Antonio Magnocavallo	1937	31/05/2000	01/01	31/12	M	-	X	-	-	-	4/5	M	4/4	P	2/2	-	-
Director	Stefania Petrucciolі	1967	29/04/2014	01/01	31/12	M	-	X	X	X	1	5/5	-	-	M	2/2	M	1/1
Director	Roberto Rezzonico	1941	20/11/2000	01/01	31/12	M	-	X	X	X	-	5/5	P	4/4	M	2/2	-	-
Director	Mauro Sala	1944	28/04/2011	01/01	31/12	M	-	X	X	X	-	5/5	M	4/4	-	-	M	1/1
Director °	Marco Janni	1937	31/05/2000	01/01	31/12	M	-	X	X	X	3	5/5	-	-	-	-	P	1/1
N. of meetings held in 2015:					BoD: 5				CRC: 4				RC: 2			RPC: 1		
Quorum required for the submission of lists by non-controlling interests for the appointment of one or more members: 2.5%																		

Notes:

Regarding the symbols appearing in the "Position" column:
˙ This symbol indicates the director in charge of the internal control and risk management system.
◊ This symbol indicates the key person in charge of the management of the Issuer (Chief Executive Officer or CEO).
° This symbol indicates the Lead Independent Director (LID).

* Date of first appointment of each director means the date on which each director was appointed for the first time (ever) in the Board of Directors of the Issuer.

** This column indicates M/m depending on whether the director was elected by the majority (M), minority (m) list or BoD (BoD) list.

*** This column indicates number of directorships or statutory auditor positions held in other companies listed on either national or foreign stock exchanges, including finance companies, banks and insurance companies, or of major companies In the Report on Corporate Governance, positions are shown in full.

(*) This column indicates the participation percentage of directors to the BoD and committee meetings (n. of times present/n. of meetings held during their term, for instance 6/8; 8/8, etc.).

(**) This column indicates the position of the board member in the Committee : "C": Chairman; "M": Member.

Specifically, at their meeting on 29 April 2014:

- the Shareholders appointed for a three-year period, until approval of the financial statements at 31 December 2016, on the basis of the single list presented by the majority shareholder, UT Communications S.p.A., approved with a favourable vote by 75.97% of the share capital, the Board of Directors of the company composed of:
    - three Executive Directors: the Chairman Urbano Cairo, Uberto Fornara and Marco Pompignoli,
    - three Non-Executive Directors: Laura Maria Cairo Antonio Magnocavallo and Roberto Cairo and
    - four independent directors: Marco Janni, Stefania Petruccioli, Mauro Sala and Roberto Rezzonico.

Urbano Cairo is the founder of the Group and has led its growth and development. A graduate in business administration from the Bocconi University, he has significant experience in the publishing and advertising segments. He started working with Fininvest in 1982. He went to work for Publitalia ’80 in 1985, where he was appointed Deputy-General Manager in 1990. In 1991 he was appointed as managing director of Mondadori Pubblicità. In December 1995 he founded Cairo Pubblicità, which initiated its advertising sales broker activity for a number of RCS Group magazines. He has therefore been the main leader behind Cairo Communication Group’s growth, whose main phases are associated with the 1998 acquisition of the company Telepiù Pubblicità, followed by Cairo TV, dedicated PAY TV advertising sales broker, the February 1999 acquisition of Editoriale Giorgio Mondadori, Cairo Communication’s listing in 2000, the contract for the exclusive rights for the sale of advertising space on La7 at the end of 2002, the birth of Cairo Editore in 2003 and his subsequent activity in developing successful new publishing initiatives (launch of “For Men Magazine” and “Natural Style” in 2003, “Settimanale Dipiù” in 2004, “Dipiù TV” and “Diva e Donna” in 2005, “TV Mia” in 2008, “Settimanale Nuovo” and weekly magazine “F” in 2012, “Settimanale Giallo” in 2013, “Nuovo TV” in 2015 and the fortnightly “Nuovo e Nuovo TV Cucina” at the start of 2016), and the acquisition of La7 in 2013, which marks the entry in the TV publishing field.

Uberto Fornara is a graduate in business administration from the Bocconi University, and has worked within the Group since its inception, having previously gained significant experience in the publishing segment with Publitalia ‘80 from 1998 and then in Mondadori Pubblicità, of which he was appointed Director of Customer Service in 1994. He is also CEO of Cairo Pubblicità S.p.A.

Marco Pompignoli was appointed as Chief Financial Officer in June 2000 and is Financial Reporting Manager of Cairo Communication S.p.A. He is a graduate in business administration and has previously worked in leading audit firms, having gained experience in Italy and abroad.
Laura Maria Cairo, sister of Urbano Cairo. A graduate in law, she has worked with several law firms in Milan and Alessandria, gaining experience in bankruptcy, civil and corporate law; since 2006, she has practised as a lawyer in Alessandria.
Roberto Cairo, Urbano Cairo's brother, is an entrepreneur in real-estate brokerage through Il Metro Immobiliare, with offices in Milan and in Liguria.
Antonio Magnocavallo has been a civil and corporate lawyer in Milan since 1961 and is currently in a partnership (Magnocavallo e Associati). He is presently board member of Fondazione Gruppo Credito Valtellinese and chairman of a number of well-known foundations and associations. Mr. Magnocavallo has provided legal assistance and consultancy to the Cairo Communication Group since 1998.

Stefania Petruccioli, a graduate in business administration from the Bocconi University - where she worked until 2004 as an adjunct and assistant professor - chartered accountant, has gained significant experience as a manager and partner in management companies specializing in private equity and venture capital. She is currently *fund manager* in Principia SGR and independent director in the listed companies De Longhi S.p.A. and Interpump Group S.p.A.

Marco Janni, graduated in civil procedural law in 1960 and was assistant to the chair of civil procedural law at the University of Milan. He is of counsel at the NCTM law firm, which deals with civil, commercial and corporate law. He was a director in large banking groups.

Roberto Rezzonico, chartered accountant, is currently Chairman of the Board of Statutory Auditors or statutory auditor in a number of important industrial groups.

Mauro Sala, chartered accountant and auditor, judge in the Regional Tax Commission of Lombardy from 1996 to 2007, is currently Chairman of the board of statutory auditors, statutory auditor and/or director of a number of companies.

At its meeting approving this Report, the Board established the following general criteria on the maximum number of administrative and control positions in other companies considered compatible with the effective performance of the role of director of the Issuer:

- executive directors may not hold any other executive office, or, in any case, be appointed as statutory auditors in other companies listed on regulated markets, financial companies, banks, insurance companies or major companies, and may hold up to five non-executive positions in such companies;

- non-executive directors may hold up to five executive or statutory auditor positions in other companies listed on regulated markets, financial companies, banks, insurance companies or major companies, up to eight non-executive positions in such companies and, in any case, up to a total of fifteen positions;
- independent directors, without prejudice to the limits set for non-executive directors, which also apply to independent directors, may hold up to eight positions as independent director in other companies listed on regulated markets, financial companies, banks, insurance companies or major companies;

major companies meaning those where at least two of the following parameters have been exceeded: turnover above Euro 500 million, employees above 500 units, balance sheet assets above Euro 50 million, excluding from the calculation companies in which the Company (or its parent) holds a controlling and/or relevant interest (as set out in art. 177 of the Issuer Regulations).

The directors of Cairo Communication hold no other position in companies listed on regulated markets, financial companies, banks, insurance companies or major companies, except for Stefania Petruccioli, who is director in De Longhi S.p.A. and Interpump Group S.p.A., and Marco Janni, who is chairman of CO.MO.I. SIM S.p.A. and Comoi Group SA, companies that are not part of the Group to which the Issuer belongs.

Given the directors' vast knowledge of the Company and their wealth of experience in the specific areas of operation of the Cairo Communication Group, as well as the personal and professional background of each member of the Board of Directors, the Board of Directors did not deem it necessary to have them attend (induction program), following appointment and during their term of office, initiatives to provide them with adequate knowledge of the area of operation of the Issuer, of company dynamics and evolution, as well as the relevant regulatory framework.

4.3 Role of the Board of Directors (art. 123 bis, paragraph 2, letter d), T.U.F.)

In 2015, the Board of Directors met five times. The Board meetings lasted an average of 2 hours. Six meetings are planned for the current year, two have already been held at 14 March 2016.

To ensure that the Directors be prepared, all the documents and information on the facts taken into consideration by the Board are sent to them via e-mail in reasonable advance (at least two days in advance, a term which, save for urgencies, is usually met) before the date of the meeting. The term was generally met in 2015. In other cases, the Chairman ensured necessary and appropriate analysis at Board meetings. At Board meetings, the items on the agenda were given the necessary time to allow an effective discussion, while the directors were encouraged to give their own contribution.

The Board of Directors holds the power to (i) purchase, sell or exchange company branches, and companies for amounts in excess of Euro 10 million and (ii) the power to furnish guarantees and endorsements for amounts in excess of Euro 5 million. These powers, or the following powers, cannot be delegated to individual directors:

a) review and approval of company strategic, business or financial plans or those relating to the Cairo Communication Group, and regular monitoring of their implementation;
b) Group's system of corporate governance and structure and, specifically, definition of the nature and level of risk consistent with the strategic objectives of the Issuer;
c) granting or revocation of powers to managing directors;
d) review and approval of (i) extraordinary transactions, and (ii) transactions involving a potential conflict of interest.

The Board of Directors has also identified the significant transactions which may only be reviewed and approved by the Board.

Such transactions have been identified and defined, starting with the term "transaction" which has been taken to mean:

i) disposals of intangible assets or property, plant and equipment, even those with no related cost or payment;

ii) granting of either temporary or permanent rights relating to intangible assets (trademarks, brands, copyrights, databases, etc.);

iii) provision of work or services;

iv) granting or obtaining of loans and guarantees (including letters of patronage);

v) any other action pertaining to property rights.

Significant transactions are those that must be disclosed to the market in accordance with art. 114 of the Consolidated Finance Act, by their nature, procedure or the nature of the counterparty, or those with a value of over Euro 10 million. The signing of advertising sales contracts, the Company's typical activity, is not deemed a significant transaction if it does not involve cost commitments or other financial commitments beyond the granting of a percentage of the revenue generated by the contract to the media owner.

With regard to regulations, these transactions are excluded from the powers conferred on the Directors and as such are subject to prior approval by the Board of Directors. If the Board of Directors cannot meet, for reasons of time pressure or other particular circumstances, the Chairman of the Board of Directors of the Company can carry out the transaction pending the approval of the Board of Directors which would then meet at the earliest possible opportunity.

Significant related party transactions - as described below in paragraph 12 "*Related party transactions*" - are also reserved to the exclusive competence of the Board of Directors of the Company and cannot be delegated.

During the year, the Board:

- evaluated the appropriateness of the organizational, administrative and general accounting structure of the company and of its strategically important subsidiaries (based on their contribution to Group profits and revenue, Cairo Editore S.p.A., La7 S.p.A. (former La7 S.r.l.), Cairo Pubblicità S.p.A. and Cairo Publishing S.r.l.), with particular reference to the internal control and risk management system and the management of conflicts of interest; such valuation was undertaken on the basis of information and evidence gathered through investigation performed by the Control and Risk Committee and through contribution by Company Management and the internal audit manager,
- evaluated the general management trend, taking particular account of information received from the bodies responsible, in addition to comparing results achieved with forecasts.

At its meeting on 15 May 2015, the Board of Directors carried out an evaluation on the size, composition and role of the Board of Directors itself and of its committees, noting that:

- the size of the Board of Directors (ten members, as the bylaws require from five to eleven members) appears adequate, taking into consideration the size and nature of corporate activities;
- the composition of the Board of Directors, considering that the three executive directors, with specific experience in company management, one of whom in finance, are supported

by seven non-executive directors, of whom three are lawyers, three are chartered accountants, four of whom independent, is appropriate;

- the role of the Board of Directors and its Committees, as shown in the above table, appears consistent with the size and nature of corporate activities with sufficient delegation of powers granted to the Chairman and to one other executive director.

The Board did not resort to the services of external consultants in the self-evaluation process.

At their Meeting on 29 April 2014, the shareholders resolved to exempt candidates elected to the position of board member from competition restrictions under art. 2390 of the Italian Civil Code for the duration of their term. None of the directors resorted to this exemption and, therefore, the Board was not called to make assessments.

4.4 Executive directors

Given the size of the Group and Parent Company, the main executive and managerial powers are entrusted to the Chairman Urbano Cairo, who is the key person in charge of defining corporate and management strategies (chief executive officer). Such powers do not include those to (i) purchase or relocate company branches or companies for amounts in excess of Euro 10 million and (ii) provide guarantees of every kind to third parties for amounts in excess of Euro 5 million, without prejudice, in any case, to the responsibilities of the Board regarding significant transactions and decisions that cannot be delegated, as identified by the Board and mentioned above, and regarding significant transactions with related parties.

Director Uberto Fornara is entrusted with the research and development of activities regarding the sale of advertising space and/or advertising brokerage (except for initiatives requesting commitments and obligations by the Issuer), management of the development of advertising sales, in accordance with the guidelines approved by the Board or by the Chairman, and management of staff and the sales network involved in advertising sales.

Director Marco Pompignoli is responsible for overseeing and supervising the Group’s administration, finance and management control functions, which include the power to manage and coordinate the activities of staff working in these areas and to coordinate the activities of the Issuer’s legal and tax advisers.

The Chairman is also the controlling shareholder of Cairo Communication. He does not hold the position of director in any other issuer, therefore excluding cases of interlocking directorate.

The executive directors have provided appropriate and regular information every three months to the Board and to the Statutory Auditors. There is no executive committee.

4.5 Other executive directors

There are no other executive directors. None of the non-executive directors i) are CEO or executive chairman in a subsidiary of strategic relevance of the Issuer or ii) hold executive positions in the Issuer or in a subsidiary of strategic relevance or in the Parent.

4.6 Independent directors

Marco Janni, Stefania Petruccioli, Roberto Rezzonico and Mauro Sala are independent directors.

As disclosed to the market on 14 May 2014, soon after their appointment, at the meeting of 14 May 2014, the Board of Directors and Board of Statutory Auditors had verified that they met the requirements to be deemed independent directors, pursuant to art.148, paragraph 3, Legislative Decree no. 58 of 24 February 1998, and to the subsequent requirements of the Corporate Governance Code issued by Borsa Italiana S.p.A.

Specifically:

- with regard to the verification of the independence requirements of Directors Marco Janni, Roberto Rezzonico (directors of the company for over nine years out of the last twelve) and of Mauro Sala (statutory auditor of the company for over nine years out of the last twelve), the Board, given the recurrence of the requirements of independence under art. 148, paragraph 3, of the TUF, and non-recurrence of the most typical cases regarding absence of independence listed in application criterion 3.C.1 of the Corporate Governance Code (letters from a) to h), except for sub e) (under which, as a rule, a director of an issuer who has held this position for over nine years out of the last twelve years is deemed not to be independent[3]), given the non-binding nature [4]- for the purposes

[3]It should be noted, however, that the criterion regarding duration in office for over nine years has been regularly disregarded by other listed companies that have adopted the Corporate Governance Code for Listed Companies. See 2013 *Annual Report 2013 - 1st report on application of the Corporate Governance Code*, prepared by the Corporate Governance Committee of Borsa Italiana S.p.A.

[4]In 2011, the company had decided to request an opinion on the matter from Prof. Matteo Rescigno, full professor of commercial law at the University of Milan.

of attributing the requirements of independence – of the application criteria, considering in general terms the absence of objective and unambiguous elements proving the existence of particular relations with the Issuer or with subjects linked with the Issuer (such as the majority shareholder, etc.) and, in particular:

(i) the absence of commercial, professional or personal relations between Marco Janni, Roberto Rezzonico and Mauro Sala, on the one side, and the Issuer, and companies belonging to the same group and the controlling partner, on the other, and

(ii) the acknowledged professional and moral qualities of the directors in question, renowned professionals with their own businesses,

(iii) the minor impact of remuneration decided by the Shareholders to the Board of Directors, which includes remuneration for the participation of certain directors in the committees as per law and the bylaws, on the overall amount of the fees of these directors, as resulting from the information provided by the persons involved,

(iv) given also the interest of the Company to still avail itself of the directors' specific experience and in-depth knowledge of the Company's inner workings gained during their term in its various bodies,

had confirmed the recurrence of the independence requirement of the foregoing directors;

- with regard to the independence of Stefania Petruccioli, following evaluation of the recurrence of the independence requirements under art. 148, paragraph 3, of the TUF, and non-recurrence of the most typical cases regarding absence of independence listed in application criterion 3.C.1 of the Corporate Governance Code (letters from a) to h), considering in general terms the absence of objective and unambiguous elements proving the existence of particular relations with the Issuer or with subjects linked with the Issuer (such as the majority shareholder, etc.), the Board had confirmed the existence of the independence requirement of this director.

The Board of Statutory Auditors had formally acknowledged such conclusions, having verified the correct application of the criteria adopted by the Board of Directors to evaluate the independence of its members.

At its meeting on 15 May 2015, the Board assessed the existence of the independence requirements for each of the above directors. In particular, after hearing the parties involved, and deeming that in 2014, no elements had emerged such as to change the assessment made with the decision of 14 May 2014, confirmed – with the parties involved abstaining from the vote - the existence of the independence requirements of directors Marco Janni, Roberto Rezzonico, Mauro Sala and Stefania Petruccioli.

The Board of Statutory Auditors formally acknowledged and verified the correct application of the criteria adopted by the Board of Directors to evaluate the independence of its members.

The number of independent directors and their qualifications were deemed appropriate for the size of the Board of Directors and the Company's activities, and such as to allow the establishment of the Remuneration, Control and Risk and Related Party Committees (for further information, see § 8 and § 10 and § 12 below).

During the year, the independent directors, in addition to meeting regularly as members of the Related Party Committee, held informal discussions on various occasions without reporting any situation requiring clarification or further discussion.

The Directors who, in the lists for the appointment of the Board, have indicated their eligibility to qualify as independent, have committed to resigning in the event of a subsequent loss of these requirements.

4.7 Lead Independent Director

Given that the Chairman of the Board of Directors is, in actual fact, the main person responsible for the management of the company (chief executive officer) and is also the controlling shareholder of the company, the Board of Directors elected an independent director, Marco Janni, as Lead Independent Director, to whom non-executive directors report, for an increased contribution to the activities and role of the Board. The Lead Independent Director works together with the Chairman to guarantee that the directors receive a complete and timely flow of information. In addition, he has the power to call, whether autonomously or on the request of other directors, appropriate meetings of independent directors for the discussion of issues deemed of being in the interest of the role of the Board of Directors or of the management of the company.

5 Treatment of privileged information

Under the provisions regarding treatment of privileged information, the Company established a register of persons (physical persons, legal entities or associations) who, through their work or professional dealings or the function they carry out on behalf of the Issuer, have regular or occasional access to privileged information (art. 152-bis), which is constantly updated (art. 152-ter). All relevant persons have been fully informed about the establishment of this register.

The Company also enacted the regulations which, in replacement of the self-regulation included in the Code of Conduct on Insider Dealing, places strict disclosure obligations on "relevant persons" of listed companies in relation to share trading carried out by them or persons closely linked to them.

In addition, the Company banned "relevant persons", with binding effect, from trading in Company shares or related financial instruments, being purchase, sale, subscription or exchange, either directly or through a third party, during the 15 days ahead of any Board meeting called to approve the financial statements for that period. The exercise of stock options or option rights relating to financial instruments (in any case, currently not in progress) is not included in the ban. The sale of shares derived from stock option plans, including sales carried out as part of the exercise of options, is also exempt. The restrictions, however, do not apply to exceptional situations which are subjectively necessary and appropriately motivated in the interest of the Company.

The Company also has a procedure in place for internal management and the publication of documents and confidential information, particularly price sensitive information governed by the following directives:

a) Confidential information (Information) is taken to mean every piece of information and news which relates to Cairo Communication S.p.A. (the Company) and its subsidiaries, both direct and indirect (the Cairo Group) which is not in the public domain or is by its nature confidential or of exclusive pertinence to the Cairo Group. Even if expressed as a personal opinion, a piece of information which could affect the price of Group company financial instruments if made public (i.e. price sensitive) is deemed Information.

b) The management of Information is the sole responsibility of the Company Chairman. In particular, the communication of Information to Consob, the Communications Regulatory Authority (Agcom), Borsa Italiana S.p.A., the media, press agencies, public relations consultants, financial analysts, journalists and any other administrative or regulatory authorities overseeing the activities of the Cairo Group must be carried out exclusively by the Company Chairman directly or occasionally through representatives chosen by him. All Directors and members of the Board of Statutory Auditors must show the utmost discretion in relation to Information acquired while carrying out their duties and must respect Company procedures relating to the publication of Information.

c) Directors are responsible for the secrecy of documentation given to them in advance of meetings of the Company Board of Directors. In any case, Directors must exercise discretion in relation to Information acquired while performing their duties.

d) The Chairman takes all measures necessary to ensure that Management and other Cairo Group employees do not transmit Information to third parties if not by law or regulation, and in respect of market best practices, in order to ensure that discretion is exercised in relation to Information acquired while performing their duties.

e) Should a Director be bound to disclose a piece of Information by the civil or legal authorities, he must communicate this to the Chairman immediately unless otherwise bound by law or the relevant authority.

f) Further to the provisions relating to the publication of Information, in order to transmit any other information to third parties, or to publish an interview to the media that relates partially or completely to the Cairo Group, Company Directors and Statutory Auditors must obtain specific prior approval of the Chairman.

6 Board of Directors' Committees

The Board of Directors has set up three committees within the Board itself – the Remuneration Committee, the Control and Risk Committee and the Related Party Committee (see section 12 below). The Board decided not to form an Appointment Committee, as it was confirmed that the powers reserved by the Code to said Committee should continue to be carried out by the Board in its entirety (see section § 7 below).

7 Appointment Committee

At its meeting of 14 May 2014, the Board of Directors evaluated the block holdings of the company and the absence of issues reported in the past relating to the sphere of competence of the Appointment Committee, managed efficiently and in compliance with the principles of the Corporate Governance Code directly by the Board of Directors, and decided not to form an Appointment Committee, as it was confirmed that the powers reserved by the Code to said Committee should continue to be carried out by the Board in its entirety.

8 Remuneration Committee

On 14 May 2014, the Board of Directors appointed, for a three-year period, until approval of the financial statements at 31 December 2016, the members of the "Remuneration Committee", composed of non-executive directors Antonio Magnocavallo, Chairman, Roberto Rezzonico (independent) and Stefania Petruccioli (independent). Roberto Rezzonico and Stefania Petruccioli have adequate experience in the accounting and financial area.

The Remuneration Committee has advisory and proposal-making functions for the Board of Directors, specifically:

- formulation of proposals to the Board of Directors regarding remuneration to executive directors, of other directors with particular responsibilities and of key management personnel;
- to periodically evaluate the adequacy, overall consistency and application of the general policy adopted for remuneration to executive directors, of other directors with particular responsibilities and of key management personnel, using for the latter information furnished by the managing directors, and formulating proposals to the Board of Directors on the matter;
- to formulate proposals to the Board of Directors for remuneration to the managing directors and to other directors with particular responsibilities, and to set performance targets related to the variable component of remuneration, by overseeing the application of the decisions adopted by the Board, verifying, in particular, actual achievement of the performance targets;
- to periodically evaluate the criteria adopted for remuneration to key management personnel, in addition to overseeing the application of any stock option plans (there are no plans underway to date), on the basis of information provided by managing directors, and to provide the Board of Directors with relevant general recommendations.

To ensure correct performance of its duties, the Committee has the power to access all necessary corporate information, in addition to make use of external consultants, in accordance with the terms established by the Board of Directors. The Committee is assisted by a secretary appointed for such purpose (Marco Bisceglia), who records the minutes of the meetings.

The functioning of the Remuneration Committee is governed by a policy approved by the Board of Directors. The meetings of the Remuneration Committee were generally not attended by the Chairman of the Board of Statutory Auditors or other auditor delegated by the Chairman; these bodies formulated their opinion on proposals put forth by the Remuneration Committee within the Board of Directors. In actual fact, no proposals were put forward to the Board on the remuneration of directors who are members of this Committee.

The Board of Directors has made financial resources available to the Remuneration Committee for the execution of its functions.

In 2014, the Remuneration Committee met 2 times, for about 1 hour and with all members attending. At least 2 meetings are scheduled this year.

On 14 May 2014, the Board of Directors allocated Euro 20 thousand as annual remuneration to the Remuneration Committee and Euro 2 thousand to its secretary.

9. Directors' Fees

The general policy for directors' fees is illustrated in the Remuneration Report, prepared pursuant to art. 123-ter of the TUF, and will be submitted to the Shareholders at their meeting held to approve the 2015 financial statements, to which reference is made for all the details.

At its meeting on 14 March 2016, the Board of Directors established the general remuneration policy for 2016 (illustrated in Section I of the Remuneration Report) regarding executive directors, other directors with particular responsibilities and key management personnel, which sets out, among other things, the guidelines for the:

a) balancing of the fixed and variable components, which envisage ceilings, with regard to strategic objectives and company risk management policy, and ceilings for variable components,

b) appropriateness of the fixed component for a director's duties, should the performance targets indicated by the Board of Directors not be met and the resulting variable component not be paid,

c) measurability of performance targets and connection of these targets to the creation of value for shareholders in the medium to long term, Incentivized remuneration criteria have gradually been introduced for some years now for executive directors and key management personnel, in order, fundamentally, to base a sizeable portion of their fees on the achievement of specific performance targets previously set and determined, consistent with the guidelines held in the general remuneration policy adopted by the Board of Directors, as described in the Remuneration Report.

To date, a medium/long term incentive system (LTI Plan) has yet to be defined and is still being assessed.

The Group has started to study and develop long-term incentivized remuneration criteria; however, given the crisis affecting the advertising segment and, generally speaking, the publishing industry for a few years now, a segment that is the core business of the Group, and the resulting instability - based on Nielsen figures in 2012, 2013, 2014 and 2015, magazine advertising fell by 18.4%, 23.9%, 6.5% and 4.1%, respectively, while TV advertising fell by 15.3%, 10.0%, and 0.5%, then increased by 0.7% in 2015 - the Group has considered, thus far, to defer application of these criteria, owing to the difficulty of setting relevant, attainable goals.

The 2016 remuneration policy envisages the inclusion of claw-back clauses, which allow the company to request the return, in whole or in part, of variable components of remuneration paid (or to withhold sums subject to deferral), determined on the basis of data which has subsequently proven to be manifestly misstated.

Directors' fees for the year 2015 are illustrated in Section II, Part II of the Remuneration Report.

Marco Pompignoli is also the Financial Reporting Manager.

No incentive mechanisms have been introduced for the internal audit manager.

There are no share-based incentive plans in place in favour of executive directors and/or key management personnel.

Remuneration to non-executive directors is not based on company performance. They do not receive any share-based incentive plans.

There are no agreements in place between the Company and the directors for any indemnity in the event of resignation or unjust dismissal, or in the event their employment relationship ceases following a takeover bid.

10 Control and Risk Committee

On 14 May 2014, the Board of Directors appointed for a three-year period (until approval of the financial statements at 31 December 2016) the members of the Control and Risk Committee, composed of non-executive directors Roberto Rezzonico (independent), Chairman, Mauro Sala (independent) and Antonio Magnocavallo. The Control and Risk Committee, in accordance with the Corporate Governance Code, is currently formed of non-executive directors, the majority of whom are independent. Roberto Rezzonico and Mauro Sala have adequate experience in the accounting and financial area.

The role of the Control and Risk Committee is to provide an early opinion to the Board of Directors in order to discharge the internal control and risk management duties assigned by the Code, in order to:

i) define the guidelines of the internal control and risk management system, so that the main risks affecting the Company and its subsidiaries are correctly identified and appropriately measured, managed and monitored, determining the level of compatibility of such risks with management of the company that is consistent with the strategic objectives;

ii) assess, at least annually, the adequacy of the internal control and risk management system with respect to the nature of the Company, its risk profile and its effectiveness;

iii) appoint an executive director to supervise the operation of the internal audit system;

the Committee also

iv) evaluates, together with the Financial Reporting Manager, after hearing the Audit Firm and the statutory auditors, the proper application of accounting policies, and in the case of groups, overall consistency of the consolidated financial statements;

v) expresses an opinion on specific aspects relating to the identification of the main corporate risks;

vi) reviews the periodical reports on the evaluation of the internal control and risk management system, and those of particular relevance prepared by the internal audit manager;

vii) monitors the independence, adequacy, effectiveness and efficiency of the internal audit function;

viii) may request the internal audit function to perform assessments on specific operating areas, providing immediate notice to the Chairman of the Board of Statutory Auditors;

ix) reports to the Board of Directors, at least every six months, on the date of the approval of the financial statements and of half-year reports, on their activities carried out and on the appropriateness of the internal control and risk management system.

To ensure correct performance of its duties, the Committee has the power to access all necessary corporate information, in addition to make use of external consultants, in accordance with the terms established by the Board of Directors. During the year, the Committee decided not to resort to external consultants, on the one hand, because it already has the tax, legal and accounting skills needed for the due evaluations and, on the other, because it did not report the existence of specific, significant facts that required their services. The Committee is assisted by a secretary appointed for such purpose (Marco Bisceglia), who records the minutes of the meetings.

In 2015, the Control and Risk Committee met four times. Minutes of the meetings, lasting for about 2 hours, were recorded. Five meetings are scheduled this year, two have already been held at 14 March 2016.

The meetings were generally attended, upon invitation, by the Chairman of the Board of Statutory Auditors, by representatives from the Audit Firm, by the Executive Director in charge of the internal control system and by the internal audit manager.

The operation of the Control and Risk Committee is governed by an appropriate regulation approved by the Board of Directors. The Board of Directors has made financial resources available to the Remuneration Committee for the execution of its functions.

During the above activities, and based on the reports received from the internal audit manager, no facts of particular relevance emerged that needed to be reported and the Committee deemed the internal control system as being adequate.

On 14 May 2014, the Board of Directors had allocated Euro 20 thousand as annual remuneration to the Control and Risk Committee and Euro 2 thousand to the secretary.

11. Internal control and risk management system

Purposes and objectives

The internal control and risk management system of the Cairo Communication Group consists of a set of rules, procedures and organizational structures, which, through an appropriate process of identification, measurement, management and monitoring of major risks, ensures that financial information is fair, accurate, reliable and timely.

The Board of Directors, assisted by the Control and Risk Committee:

- has defined, in the frame of the definition of the strategic, business and financial plans, the nature and level of risk consistent with the Issuer's strategic objectives;
- has defined the guidelines of the internal control and risk management system, so that the main risks affecting the Company and its subsidiaries are correctly identified and appropriately measured, managed and monitored, determining the level of compatibility of such risks with management of the company that is consistent with the strategic objectives;
- has assessed, at least on an annual basis, the adequacy of the internal control and risk management system with respect to the nature of the Company, its risk profile and its effectiveness.

The Control and Risk Committee analyzed, at least on an annual basis, the plan drafted by the person in charge of internal audit, with the opinion of the Board of Statutory Auditors and the director in charge of the control and risk management system;

The Board of Directors, on proposal of the director in charge of the internal control and risk management system and the favorable opinion of the Control and Risk Committee, after hearing the Board of Statutory Auditors, appoints and revokes the internal audit manager, and sees that the manager is adequately resourced to perform duties, and defines the manager's fees consistent with corporate policies.

Over the past financial years, the Group has set the policy lines of the internal control system in order to rationalize the overall system by mapping and classifying subjects involved, organize the main reporting flows within the Group and explicate the responsibilities and areas of activities taking place.

The evaluation of the internal control and risk management system is regularly conducted to verify its ability:

- to react to significant situations of risk in a timely manner, ensuring appropriate control mechanisms;
- in terms of corporate processes, to guarantee an appropriate degree of segregation of duties between operating functions and control functions to avoid conflicts of interest in the responsibilities assigned;
- in terms of the operating activities and accounting and administrative activities, to guarantee systems and procedures that assure the accurate recording of company and management events, in addition to the provision of reliable and timely information, both internal and external to the Group;
- to provide for methods to ensure the timely communication of any significant emerging risks and anomalies in control to the appropriate Group Management, and to enable the identification and timely execution of remedies.

The reference model adopted by the Group for the implementation of its internal control system complies with domestic and international best practices and with the indications set by the laws and regulations Cairo Communication is required to comply with as a company listed on a regulated market, such as in particular law 262/2005 and consequent articles 154-bis and 123-bis of the Consolidated Finance Act and Legislative Decree 195/07 ("Transparency Decree") as well as the Corporate Governance Code of Borsa Italiana, to which Cairo Communication conforms.

The system has been designed and implemented following the guidelines issued by a number of sector bodies regarding the activities performed by the Financial Reporting Manager.

Main characteristics of existing risk management and internal control system in relation to the financial reporting process (pursuant to art. 123 bis, paragraph 2, letter b), T.U.F.)

Stages of the existing system of risk management and internal control system in relation to the financial reporting process

The risk management and internal control system in relation to the Group's financial information rests basically on the application and monitoring of relevant corporate procedures for the purposes of the preparation and disclosure of financial information.

Specifically, the internal control system is split up into the following stages:

a) Identification and evaluation of risks related to financial information;

b) Identification of controls upon identification of risks;

c) Evaluation of controls upon identification of risks.

The evaluation procedures and instruments used by the Group are periodically subject to review processes aimed at the verification of their suitability and function as compared to the corporate reality, which is by its very nature mutable. Therefore, where possible, an information flow has been put in place in order to maintain, update and improve system quality.

a) Risk identification and evaluation for financial reporting: the identification of both the scope of the entries and their "significant" processes in terms of potential impact on financial reporting, and of the risks consequent to any missed control objectives, comes about by way of a quantitative analysis of the financial statement items and a qualitative evaluation of the processes.

The quantitative analysis, aimed at the identification of the relevant entries, is performed through the application of the concept of "materiality" to the combined items in the trial balance of the Cairo Communication Group. The materiality threshold was determined as a fixed percentage in compliance with the indications in article 2621 of the Italian Civil Code.

Once the significant accounts have been identified through the account-processes combination, the significant processes are then distinguished.

The qualitative analysis, through the evaluation of the significance of the business processes and of their level of complexity, integrates the quantitative analysis, determining the inclusion or the exclusion of the processes in regard to the scope of reference.

For each process identified as significant, there are then also identified specific process risks, which in the event of their occurrence, would compromise the achievement of the objectives connected to the system: that is to say, those of accuracy, reliability, credibility and timeliness of financial reporting.

The financial reporting manager reviews the definition of the scope of reference at least annually and also, each and every time that elements, which might change the analysis performed in a significant manner, are manifested.

b) <u>Identification of the controls corresponding to the identified risks:</u> the identification of the controls necessary for the mitigation of the ascertained risks is performed associating the risks identified to the relative control objectives, meaning the group of objectives that the financial reporting control system intends on achieving in order to ensure a true and correct representation.

The controls established have been formalized inside a specific matrix (“Matrix of risks and controls”).

c) <u>Evaluation of the controls corresponding to the identified risks</u>: the evaluation of the administrative and accounting control system is to be performed at least annually.

The valuation of the suitability of the actual application of the controls is performed through specific verification activities, aimed at guaranteeing the programming and implementation of the identified controls, upon indication and coordination on the part of the financial reporting manager.

Based on the results of the verification work, the financial reporting manager, with the aid of the support staff, defines a remedy plan so as to correct any deficiencies that may impact negatively on the effectiveness of the risk management and internal control system in relation to financial reporting.

At least annually, the financial reporting manager reports to the Control and Risk Committee and the Board of Statutory Auditors and communicates with the company supervisory boards, regarding the methods with which the suitability evaluation and the application of the controls and administrative - accounting procedures have been conducted, then expressing his own evaluation on the suitability of the administrative - accounting control system.

<u>Roles and functions</u>

The subjects involved in the internal control and risk management system, each with their own specific role, are:

1. the Board of Directors, which guides and assesses the adequacy of the system, identifying within the system:

(i) the director in charge of the formation and maintenance of an effective internal control and risk management system (the “director in charge of the internal control and risk management system”), and

(ii) the Control and Risk Committee, in charge of assisting, through appropriate preparatory work, the assessments and decisions of the Board of Directors regarding the internal control and risk management system, as well as those regarding the approval of periodical financial reports;

2. The internal audit manager, in charge of verifying that the internal control and risk management system is working properly and adequately;
3. other roles and functions with specific tasks regarding internal control and risk management,
4. the Board of Auditors, which monitors the effectiveness of the internal control and risk management system.

Art. 154-bis of the Consolidated Finance Act provides for the presence, in the corporate organization of listed companies, of the “Financial Reporting Manager”, appointed by the Board of Directors in concert with the Managing Director. The Manager is responsible for planning, implementing and approving the accounting and administrative control model, and for assessing its application, issuing a certificate on half-year, annual and consolidated financial statements.

The Manager is also responsible for preparing adequate administrative and accounting procedures for the formation of the separate and consolidated financial statements, and for providing subsidiaries, considered as significant entities for the preparation of the Group’s consolidated financial reporting, with instructions on how to perform an appropriate evaluation of their accounting control system.

Overall evaluation of the appropriateness of the internal control and risk management system

Based on the information and evidence gathered following preliminary analysis conducted by the Control and Risk Committee, supported by Management and by the internal audit manager, Board of Directors deems the internal control and risk management system to be, as a whole, appropriate for allowing, with reasonable assurance, achievement of the Company's objectives.

The evaluation, as it refers to the overall internal control system, is by nature limited. While well-structured and in operation, the internal control system is designed only to guarantee accomplishment of corporate objectives with "reasonable assurance".

11.1 Executive director in charge of the internal control and risk management system

Marco Pompignoli, executive director, is responsible for overseeing the operation of the internal control and risk management system. During the year, he was responsible for:

- identifying main corporate risks (strategic, operational, financial and compliance), taking account of the nature of the operations carried out by the company and its subsidiaries, to submit them for the review of the Board of Directors,
- executing the policies as identified by the Board of Directors, providing for the planning, realization and management of the internal control system, constantly monitoring the overall appropriateness, effectiveness and efficiency,
- adapting the system to the dynamics of the Group's operating conditions and to the legal and regulatory framework.

The director in charge of the internal control and risk management system has requested the internal audit manager to perform assessments on the main areas of operations and on compliance with company rules and procedures in the execution of business operations, informing the Chairman of the Control and Risk Committee and the Chairman of the Board of Auditors and reporting to the Control and Risk Committee on the findings.

11.2 Internal audit manager

The role of internal audit manager is carried out by an external professional, Ezio Micheli, appointed at the end of 2007 on the proposal made by the executive director responsible for the internal control system and taking account of the opinion of the Control and Risk Committee, who reports to the Control and Risk Committee and to the Board of Statutory Auditors.

The Board of Directors has assigned the internal audit manager the responsibilities foreseen by the Corporate Governance Code and has defined his remuneration, in line with corporate policy, providing him with the appropriate means to fulfill his duties.

The Board of Directors has verified that this person possesses the necessary professional and independence requirements to perform such function. In particular, he is not in charge of any operating area and is not subordinate to any person in charge of operating areas, including administration and finance.

The internal audit manager has been allowed direct access to all useful information for the performance of his duties and has reported on his activities to the Control and Risk Committee and to the Board of Statutory Auditors and to the executive director responsible for overseeing the operation of the internal control system.

During the year, the activities of the internal audit manager mainly focused on verifying the updating and implementation process of corporate procedures. He is a member of the Supervisory Board pursuant to Legislative Decree 231/2001, as indicated in section 11.3 below.

The internal audit manager, also assisted by unrelated external consultants, experts in these areas, made available to the Company:

- verified on a continuous basis (not having reported specific needs) the operation and adequacy of the internal control and risk management system through an audit plan, based on the structured analysis and ranking of key risks and the reliability of information systems, including the accounting systems;
- regularly referred to the Control and Risk Committee, during the meetings of the Committee, also attended by the Chairman of the Board of Statutory Auditors and the director in charge of the internal control and risk management system, providing appropriate information on the tasks performed, on risk management procedures, and compliance with defined plans for risk mitigation, as well as an opinion on the adequacy of the internal control and risk management system;
- assessed, as part of the audit plan, the reliability of information systems, including accounting systems.

11.3 Organizational Model pursuant to Legislative Decree 231/2001

On 31 March 2008, the Board of Directors adopted a Model for organization, management and control pursuant to Legislative Decree 231/2001 (Organizational Model), thereby providing itself with a set of principles of conduct and procedures to comply with the requirements of Legislative Decree 231/2001, both in terms of the prevention of crime and illicit acts, and in terms of control measures to ensure implementation of the Model itself. The Model was updated by the Board of Directors, on a proposal of the Supervisory Board (most recently in May 2015, then in February 2016, following a number of regulatory changes to Legislative Decree no. 231/01), mainly including “bribery among private individuals”, environmental crimes and crimes of association, incitement to make false statements, crimes against industry and self-laundering. A similar model was also adopted, and later updated, in keeping with the Organizational Model of Cairo Communication S.p.A., by the subsidiaries Cairo Pubblicità S.p.A., Cairo Editore S.p.A. and La7 S.p.A. (former La7 S.r.l.).

The Organizational Model adopted is made up of a set of principles, rules and organizational hierarchies relating to the management and control of corporate activities and is presented in an explanatory document which:

- identifies the activities in which crimes could be committed;
- provides for specific rules directed at planning the formation and performance of corporate decisions relating to crimes to be prevented;
- identifies methods for the management of financial resources directed at crime prevention;
- provides for the provision of information to the body deputized with oversight of the operation and observation of the models (Supervisory Board);
- introduces a disciplinary system directed at punishing failure to respect measures identified by the Organization Model.

The Organizational Model adopted provides for the presence of a corporate body responsible for assuming the functions of a control body (Supervisory Board) with autonomous responsibilities for the supervision, control and initiative related to the Model, composed of three members who must be selected from persons having proven abilities in inspection, management, administration and legal matters, and who must also possess minimum requirements of professionalism and integrity.

Specifically, the Supervisory Board verifies that the company has an appropriate Organizational Model in place and ensures it is effectively carried out, certifying its own effectiveness whilst carrying out its functions, ensuring the progressive update, thus guaranteeing constant process of adjustment to the above-mentioned operating and/or organizational principles.

In 2015, the members of the Supervisory Board of Cairo Communication S.p.A. were Ezio Micheli, internal audit manager, Giacomo Leone and Marco Bisceglia, Chairman.

11.4 Audit Firm

At their meeting on 28 April 2011, on proposal by the Board of Statutory Auditors, the Shareholders conferred the audit assignment for the 2011-2019 nine-year period to KPMG S.p.A., approving the relevant fee.

11.5 Financial Reporting Manager

The Board of Directors appointed Marco Pompignoli, Chief Financial Officer of the Cairo Communication Group, as the Financial Reporting Manager. He has the appropriate professional requirements (graduate in business administration, previously working for a major audit firm, gaining significant experience in Italy and abroad, and a certified accountant registered in Forlì).

Marco Pompignoli, as board member of the company, is provided with executive and management powers to oversee the administration, finance and management control functions of the Group to which the Issuer belongs.

11.6 Coordination among parties in the internal control and risk management system

Regarding coordination among the various parties involved in the internal control and risk management system (Board of Directors, director in charge of the internal control and risk management system, Control and Risk Committee, internal audit manager, Financial Reporting Manager, Supervisory Body and Board of Statutory Auditors), the meetings of the Control and Risk Committee are generally attended also by the:

- Chairman of the Board of Statutory Auditors,
- partner or manager of the Audit Firm,
- director in charge of the internal control and risk management system, Marco Pompignoli, who is also the Financial Reporting Manager,
- the internal audit manager, Ezio Micheli, who is also member of the Supervisory Body.

Furthermore, the Board of Statutory Auditors and the Supervisory Board schedule a specific joint annual meeting also attended by the director in charge of the internal control and risk management system and the partner or manager of the Audit Firm to take stock of activities performed during the year, to plan those for the following year and to jointly discuss any issues of common interest from their respective areas of competence.

In any event, during the year, information is continually exchanged between the Board of Statutory Auditors and the Supervisory Board.

12 Related party transactions

Consob, through Resolution no. 17221 of 12 March 2010, amended through subsequent Resolution no. 17389 of 23 June 2010, adopted, pursuant to art. 2391-bis of the Italian Civil Code, and to articles 113-ter, 114, 115 and 154-ter of the TUF, the regulations regarding provisions pertaining to related party transactions, to which management bodies of issuers of widely distributed securities must comply (the “**Regulation**”).

At its meeting on 11 November 2010, the Board of Directors of Cairo Communication S.p.A., on the favourable opinion of the independent directors, adopted the procedures for related party transactions (the “Procedures”), for the purpose of guaranteeing “*substantial and procedural transparency and fairness of related party transactions*” carried out by the Company directly or through its subsidiaries, establishing a Related Party Committee.

Pursuant to the Regulation, Cairo Communication is considered a “small company”, since its assets and its revenue shown, shown in the last approved financial statements (31 December 2014), are lower than Euro 500 million, amounting respectively to approximately Euro 312 million and to approximately Euro 240 million. For such companies, the Regulation provides for the possibility to “apply to transactions of greater importance, as a waiver to art. 8, a procedure identified pursuant to art. 7 of the Regulation” (transactions of lesser importance).

The procedures adopted by the Company, available on www.cairocommunication.it in the *Corporate Governance* section, to which reference is made for complete details, have also identified:

a) the definition of related parties and transactions;

b) roles and responsibilities;

c) transactions of greater importance, being those in which at least one of the ratios of significance (equivalent value relevance ratio, assets and liabilities relevance ratio) set out in the Regulation are higher than the threshold of 5%, or of 2.5% for transactions whose purpose is the disposal of intangible assets of strategic importance;

d) the exemptions provided in the Regulation and opted by the Company, mainly transactions of smaller amounts (Euro 150,000), remuneration plans pursuant to art. 114-bis of the TUF (which comply with the obligations regarding transparency and substantial and procedural correctness provided by the temporary provisions in force), regular transactions concluded under market-equivalent or standard conditions and the transactions with and between subsidiaries and/or associates;

e) the procedures regarding the preliminary proceedings and approval of related party transactions and the regulations in cases where the company examines or approves transactions with subsidiaries;

f) the procedures and timing adopted to provide information on the transactions, and the related documentation, to the directors or independent directors who express opinions on related party transactions, as well as to the management and independent advisors, before their approval, during and after their execution.

Related party transactions of greater importance are reserved to the exclusive competence of the Board of Directors and may not be delegated. The execution of such transactions, as well as those of lesser importance, is subject to a non-binding opinion of the Related Party Committee, or of other bodies indicated in the procedures.

In the event one or more transactions are approved, notwithstanding a negative opinion expressed by the Committee and/or other bodies, the Company draws up and makes available to the public at its main registered office within 15 days from the close of each quarter of the financial year, a document containing indication of the counterparty, of the object and counter value of such transactions approved in the quarter of reference, as well as the reasons why that opinion has not been shared. Within the same time, this opinion is made available to the public in attachment to the above document or on its website www.cairocommunication.it.

Regarding transactions of greater importance falling under the competence of the Shareholders, in the event the resolution proposal is approved, notwithstanding contrary advice by the Related Party Committee (or by other bodies), the transaction is not carried out if the majority of unrelated shareholders votes against the transaction, provided the unrelated shareholders attending the Meeting represent at least 10% of the share capital with voting right (whitewash mechanism). For such purpose, in the resolution proposal, the Board adds a provision that specifies that the effectiveness of the transaction is subject to the foregoing majority.

Related party transactions must comply with transparency and substantial and procedural correctness criteria and are executed in the exclusive interest of the Company:

- substantial correctness means correctness of the transaction from an economic point of view when, for instance, the transfer price of goods is in line with market prices and, more in general, when the transaction has not been influenced by the related party relationship, or at least said relationship has not determined the acceptance of conditions that are unjustifiably penalizing for the Company;

- procedural correctness means compliance with procedures aimed at ensuring the substantial correctness of the transaction and, therefore, observance of the rules through which it is at least potentially ensured that related party transactions do not determine any unjustified prejudice to the reasons of the Company and its investors.

At the Board of Directors' meeting called to resolve on such related party transactions, directors who have even a potential or indirect interest in the transaction must provide prompt and exhaustive information in person to the Board on the existence of such interest and on the circumstances thereof, leaving the meeting at the moment of the resolution. Should the directors' presence be needed to maintain the necessary quorum, the Board may decide, upon the unanimous decision of the attendants, for the directors not to leave the meeting.

The Regulation also provides for a series of obligations to inform the public on transactions of greater importance, as well as for those of lesser importance, at least every quarter in the latter case.

The Committee for the approval of related party transactions (hereinafter, the "**Related Party Committee**"), regardless of the importance, is appointed by the Board of Directors and can be composed of three members:

(i) in the event at least three independent directors have been elected to the Board of Directors, the members of the Committee are all independent directors;

(ii) otherwise than under the case indicated in the above point (i), its members are non-executive directors, the majority of whom are independent. In such case, the Committee may coincide with the Control and Risk Committee.

On 14 May 2014, the Board of Directors appointed the members of the Related Party Committee, composed of the three independent directors Marco Janni, Chairman, Stefania Petruccioli, and Mauro Sala, and allocated Euro 20 thousand as annual remuneration to the Related Party Committee. The Committee is assisted by a secretary appointed for such purpose (Marco Bisceglia), to whom the Board of Directors allocated Euro 2 thousand as annual remuneration.

The Committee is required to perform all the tasks indicated in the Regulation and in the procedures. Specifically, its task is to release a motivated opinion on the interest of the

Company (or, if the case, of its subsidiaries) on the execution of related party transactions and on the convenience and substantial correctness of conditions thereto. If required by the nature, extent and characteristics of the transaction, the Related Party Committee may also be assisted by one or more independent experts of its choice, whose fees are paid by the Company, through the acquisition of specific reports and/or fairness and/or legal opinions.

The Board of Directors may decide on remuneration for special responsibilities pursuant to art. 2389, paragraph 3, of the Italian Civil Code, to the Committee members for each transaction it is required to express an opinion on.

13 Appointment of the Board of Statutory Auditors

Under art. 26 of the company bylaws, the Board of Statutory Auditors is appointed on the basis of lists submitted by the shareholders containing a maximum of five candidates.

Under the bylaws:

- members of the Board of Statutory Auditors are appointed on the basis of lists that must be filed with the registered office of the Company within the 25th day before the Shareholders' Meeting called to decide on the appointment of the members of the Board of Statutory Auditors, made available to the public at the registered office, on www.cairocommunication.it and in accordance with the other procedures provided by law and regulations, at least 21 days before the date of the Meeting. Upon expiry of the time limit of 25 days prior to the Meeting, in the event only one list has been filed, or lists submitted by shareholders who are connected, pursuant to applicable provisions, lists may be submitted until the fourth day (as set forth in the bylaws) subsequent to such date. In this event, the foregoing 2.5% threshold (or other minimum amount set by prevailing laws) is reduced by half;
- the lists consist of two sections: one for candidates to the position of standing auditor, and the other for candidates to the position of alternate auditor, and where the number of candidates is equal to or higher than three, they must ensure minimum gender representation required by the laws and regulations in force at the time;
- lists admitted to the voting are those submitted by shareholders who, either individually or jointly with other shareholders, represent at least 2.5% of the shares entitled to vote in the ordinary meeting, or other minimum amount set by Consob, which was set at an

amount equal to 2.5% by resolution 19499 of 28 January 2016). Ownership of the minimum stake is determined on the basis of the shares recorded in the name of the shareholder on the date the lists are filed with the Company; candidates may appear in one list only, under penalty of ineligibility; candidates holding the position of statutory auditor in 5 (five) other listed companies (excluding their subsidiaries, although listed) or holding a number of positions exceeding the cumulative limit prescribed by law and by Consob, or failing to possess the requirements of integrity and professionalism established by prevailing laws, shall not appear in the lists. Each list shall be accompanied by a) information regarding the identity of the shareholders who have submitted the list, indicating total percentage of shares held, and by prescribed certification on ownership of the stake, which may be submitted also subsequent to filing, provided within the time limit set for publication of the lists; b) a statement of the shareholders other than those who hold, also jointly, a controlling or relative majority interest, declaring they have no relationship of connection, pursuant to applicable provisions; c) detailed information regarding the personal and professional qualifications of the candidates (including gender), and a statement with which each candidate accepts nomination and attests, under own responsibility, that there are no reasons for ineligibility or incompatibility with the position, and confirms possession of the requirements prescribed by law and the bylaws for the respective positions;

- the chairman of the Board of Statutory Auditors shall be the candidate indicated on top of the list that has received the second-highest number of votes. The bylaws do not provide for the appointment of more than one minority statutory auditor, nor do they provide for the possibility of drawing a number of alternate auditors from the minority list to replace the minority member greater than the minimum required by Consob;
- should two or more lists reach a tie, the prevailing list shall be the list possessing the largest shareholding or, in the event of a tie, the highest number of shareholders;
- should only one list be submitted, the three standing auditors and two alternate auditors shall be drawn from this list, in the sequential order in which they appear, in which case the Chairman of the board of statutory auditors shall be the candidate appearing on top of the list;
- according to the above procedure, should the composition of the board of statutory auditors fail to comply with gender balance required by law or regulations currently in

force, the necessary replacements shall be made based on the sequential order of listing of candidates;

- should no list be submitted or admitted, the board of statutory auditors and its Chairman shall be appointed by the Shareholders' Meeting by relative majority vote, in compliance with the laws and regulations in force on gender balance.

14 Composition and operation of the Board of Statutory Auditors (pursuant to art. 123 bis, paragraph 2, letter d), T.U.F.)

At their meeting on 29 April 2014 the Shareholders appointed the Board of Statutory Auditors for a three-year period, until the approval of the financial statements at 31 December 2016, on the basis of a single list submitted by the major shareholder, UT Communication S.p.A. approved with the favourable vote of 76.34% of the share capital. The Board of Statutory Auditors comprises three standing auditors, Marco Moroni, Chairman, Maria Pia Maspes and Marco Giuliani, and two alternate auditors, Emilio Fano and Enrico Tamborini, who have certified that they know of no relative cause of ineligibility or incompatibility, and that they meet the requirements for the position under current legislation and the bylaws, specifically, the requirements of independence provided by art. 148, paragraph 3 of the TUF, and the requirements of independence provided by industry regulations if applicable on account of business activities performed.

	Board of Statutory Auditors								
Post	**Members**	**Year of birth**	**Date of first appointment***	**From**	**Until**	**List (M/m)****	**Independence as per Code**	*****	**Number of other posts ********
Chairman	Marco Moroni	1963	05/05/2008	01/01	31/12	M	X	4/4	17
Standing auditor	Marco Giuliani	1959	28/04/2011	01/01	31/12	M	X	4/4	9
Standing auditor	Maria Pia Maspes	1970	30/01/2006	01/01	31/12	M	X	4/4	12
Alternate auditor	Emilio Fano	1954	29/04/2014	01/01	31/12	M	X	n/a	n/a
Alternate auditor	Enrico Tamborini	1967	28/04/2011	01/01	31/12	M	X	n/a	n/a
	Quorum required for the submission of lists at previous appointment: 2.5%								
	N. of meetings held in 2015: 4								

NOTES:
** Date of first appointment of each statutory auditor means the date on which each statutory auditor was appointed for the first time (ever) in the Board of Statutory Auditors of the Issuer.*
*** This column indicates M/m depending on whether the statutory auditor was elected by the majority (M) or minority (m) list*
**** This column indicates the participation percentage of statutory auditors to the BoA meetings (n. of times present/n. of meetings held during their term, for instance 6/8; 8/8, etc.).*
***** This column indicates number of directorships or statutory auditor positions held, pursuant to art. 148-bis TUF and related implementation provisions contained in Consob's Issuer Regulations. The complete list of appointments is published by Consob on its website pursuant to Art. 144-quinquiesdecies of Consob's Issuer Regulations.*

In 2015, four meetings were held, each lasting approximately 2 hours. Five meetings are scheduled for the current year, one has already been held.

The Board of Statutory Auditors assessed the independence of its members following their appointment. For its assessments, it based itself, among other criteria, also on those prescribed by the Corporate Governance Code regarding independence of directors. In any event, auditors who, either or on their own behalf or of third parties, may have an interest in a specific transaction involving the Issuer, shall promptly and fully inform the other auditors and the Chairman of the Board of Directors as to the nature, terms, origin and extent of their interest.

The Board of Statutory Auditors also oversaw the independence of the Audit Firm, verifying the respect of relevant regulatory requirements in terms of the nature and overall service provided other than the audit services provided to the Company and its subsidiaries by the same Audit Firm and the entities forming part of its network.

In the performance of its duties, the Board of Statutory Auditors coordinated its activities with the internal audit manager and with the Control and Risk Committee, also with the attendance of its Chairman or other statutory auditor delegated to the meetings of the Control and Risk Committee.

Given the vast knowledge of the Company accumulated by the statutory auditors and their wealth of experience in the specific areas of operation of the Cairo Communication Group, as well as the specific personal and professional background of each member of the Board of Statutory Auditors, it was not deemed necessary to have them attend (induction program), following appointment and during their term of office, initiatives to provide them with adequate knowledge of the area of operation of the Issuer, of company dynamics and evolution, as well as the relevant regulatory framework.

15 Investor Relations

Cairo Communication has set up an appropriate section in its website, which is easy to find and easily accessible, in which all important company information of interest to shareholders is made available.

To put a communication flow in place with the general body of shareholders, also taking account of the size of the Company and Group, an appropriate "investor relations" function has been set up, managed by Mario Cargnelutti, who is supported by top management, particularly in relation to dealings with institutional investors.

16 Shareholders' Meetings

The functioning of the Shareholders' Meeting, its main powers, shareholders' rights and terms of their exercise are those prescribed by the applicable provisions of law and regulations.

Multiple-voting shares or increased voting rights are not envisaged.

The By-laws contain no provisions that reserve shareholders the authorization of specific actions taken by the directors. Pursuant to art. 21, paragraph 2 of the bylaws, without prejudice to the competence of the Shareholders at their Extraordinary Meeting, who have the authority to decide on the matter, pursuant to art. 2365 of the Italian Civil Code, the Board of Directors is authorized, inter alia, to adopt resolutions concerning merger, in the cases set forth in articles 2505 and 2505 bis of the Italian Civil Code, capital reduction in the event of shareholder withdrawal, harmonization of the bylaws to mandatory provisions of law, relocation of the registered office to other premises in Italy.

For those entitled to participate to the Meeting voting rights and representation at meetings is governed by the provisions of law and regulations. Art. 12 of the bylaws states as follows: "*Shareholders entitled to vote at meetings and their representation is governed by the provisions of law and regulations. In particular, shareholders authorized to cast a vote may send notice by electronic means of the proxies issued pursuant to the prevailing laws, by accessing a specific section on the Company's website according to the procedures to be indicated in the notice of call of shareholders' meetings*."

Voting by correspondence, e-voting and/or voting using audiovisual links has not been established.

Given the number of attendants at Company ordinary and extraordinary shareholders' meetings, which has never posed any risk to the rights of expression of any member in relation to matters discussed, no regulations relating to the orderly and functional operation of the Meetings have been proposed for the approval of the Shareholders.

Shareholders' Meetings are an opportunity for information regarding the Issuer to be communicated to shareholders, in accordance with the code of practice relating to privileged information. In particular, at Shareholders' Meetings, the Board of Directors reports on activities completed and planned, and ensures that shareholders have appropriate information on all topics required in order to make decisions at the meeting with full knowledge of the facts. All members of the Board of Directors attended the Meeting held on 28 April 2015.

In order to meet this objective, the Board of Directors makes available to shareholders all company information they deem relevant, in a timely manner, in accordance with the code of practice relating to privileged information. For such purpose, a dedicated section of the Company website has been set up where this type of information is displayed, with particular detail on attendance at Shareholders' Meetings, the exercise of voting rights and documentation relating to items on the agenda.

No proposals were made at the Shareholders' Meeting to vote on items on which a proposal had not been made in advance by the Board of Directors.

At the last Shareholders' Meeting, the President (or other member) of the Remuneration Committee was not required to report to the shareholders on the manner of exercising the functions of the Committee, which are appropriately explained in the Remuneration Report and Corporate Governance Report.

In 2015, no significant changes were reported in the composition of the Issuer's corporate structure.

17 Further corporate governance practices

There are no corporate governance practices further to the ones mentioned above applied by the Company, aside from the legal or regulatory requirements.

18 Changes after year end

There were no changes in the Corporate Governance structure after year end.

Treasury shares

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

Stock Options

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

Shares held by directors, statutory auditors and general managers

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

Other information

Research and development activities

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

Human resources

By the nature of the activities it carries out, human resources form a critical factor for the success of the Group. The evaluation of staff, the development of their abilities and the recognition of their achievements and responsibilities are the principles which govern personnel management, from the selection phase, which is facilitated by the high degree of the Group's visibility and its ability to attract personnel.

Staff turnover during 2015 and its composition at 31 December 2015 can be analyzed as follows:

Description	01/01/2015	Recruitments	Terminations	Advancements	31/12/2015
Open-ended contracts	**712**	24	(17)	8	**727**
Senior managers	**25**	3	-	2	**30**
Managers	**82**	1	(1)	(2)	**80**
Employees	**384**	14	(11)	8	**395**
Journalists and freelance	**221**	6	(5)		**222**
Fixed-term contracts	**25**	116	(87)	(8)	**46**
Senior managers	**0**	0	0	0	**0**
Managers	**0**	0	0	0	**0**
Employees	**11**	66	(53)	(5)	**19**
Journalists and freelance	**14**	50	(34)	(3)	**27**
Grand total	**737**	**140**	**(104)**	**0**	**773**

Personnel can also be analyzed by average age, sex, education and seniority:

	Senior managers	**Managers**	**Employees**	**Journalists and freelance**
Men (number)	29	50	211	109
Women (number)	1	30	203	140
Average age	50	49	45	47
Seniority	14	15	12	13
Open-ended contracts	30	80	395	222
Fixed-term contracts	-	-	19	27
Graduates	24	34	95	127
Diploma holders	5	47	296	120
Middle school graduates	0	1	22	2

Most of the employees (438) work in the TV segment, followed (225) by the magazine and book publishing segment. The advertising segment employs 74 people and draws on a sales force of approximately 100 agents (direct and indirect) who are coordinated by senior sales managers and staff who, together with their staff, also ensure coordination with the editors and the promotion of special initiatives.

The Group is committed to pursue health and safety objectives at the workplace. There were no accidents in the workplace or charges for occupational diseases during the year.

Environment

The Cairo Communication Group has outsourced its production processes. There are no major environmental aspects which could affect the financial position or results of operations of the company.

Privacy

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

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

EVENTS AFTER THE REPORTING PERIOD AND BUSINESS OUTLOOK

In 2015, despite the high degree of uncertainty of the economic context in general and specifically of its relevant markets (advertising and publishing), and despite the drop reported by advertising revenue also as a result of the market trend, the Cairo Communication Group:

- reported in 4Q15 a strong improvement in the results trend versus the first nine months of the year, achieving gross operating profit (EBITDA) of approximately Euro 6.8 million, exceeding the result achieved in 4Q14 (Euro 6.6 million);
- continued its growth strategy by launching “Nuovo TV”, the new TV weekly led by Riccardo Signoretti, out on newsstands from 21 September; in the first 22 issues, it posted average sales of approximately 142 thousand copies, highly satisfactory results in line with forecasts; Thanks also to the results achieved by “Nuovo TV", 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 sales of approximately 165 thousand copies in the first 5 issues;
- reported a strong growth in results in the magazine publishing segment which, despite incurring total costs of Euro 1.4 million in September and October to launch the new weekly, achieved gross operating profit (EBITDA) and operating profit (EBIT) of Euro 14.6

million and Euro 13.5 million (up by approximately 6.1% and 7.7% versus 2014), 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 - in a persistently weak advertising market - to work on strengthening the results of the rationalization and cost-curbing measures achieved in the TV publishing segment (La7) in 2013 and 2014, and succeeded in posting, in 2015 too, a positive gross operating profit (EBITDA) of approximately Euro 1.6 million, thanks to the results reached in 4Q15, when gross operating profit (EBITDA), amounting to approximately Euro 4.7 million, grew by about 50% versus the figure achieved in 4Q14, thanks also to the trend in advertising sales on La7 and La7d channels in December, up by more than 10% versus December 2014.

Based on the order book at 14 March 2016 for advertising aired and to be aired on La7 and La7d in 1Q16, amounting to approximately Euro 35.8 million, revenue achieved in 1Q15 (Euro 35.2 million) has already been beaten, and forecasts point to a growth of approximately 4% in the quarter. In 1Q16, based on the order book at 14 March 2016, amounting to Euro 5.1 million, advertising sales on the Group's magazines show an extremely positive trend, up by approximately 15% versus revenue achieved in 1Q15 (Euro 4.4 million).

In 2016, the Cairo Communication Group will continue to:

- pursue the development of its traditional segments (magazine publishing and advertising sales), also continuing, in the publishing segment, its growth strategy with the launch of new titles; 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, which is forecast to achieve a positive gross operating profit (EBITDA) in 2016 too.

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

For the Board of Directors

Chairman Urbano Cairo

Dear Shareholders,

at the meeting held on 14 March 2016, the Board of Directors resolved to submit the financial statements as at and for the year ended 31 December 2015 to the approval of the Shareholders and to propose the distribution of a dividend of 0.20 Euro per share, inclusive of tax.

Shareholders are invited:

- to approve the financial statements as at and for the year ended 31 December 2015;
- to resolve on the proposal to distribute to shareholders a dividend of 0.20 Euro per share, inclusive of tax, with the exception of treasury shares held the evening prior to the record date pursuant to art. 83-*terdecies* of Legislative Decree 58/1998:
    - distributing profit for the year of Euro 8,109,548,
    - drawing the difference from the share premium reserve.

  If approved by the Shareholders, the dividend of Euro 0.20 per share will be made payable from 11 May 2016 (record date pursuant to art. 83-*terdecies* of Legislative Decree 58/1998: 10 May 2016), prior to detachment of coupon n. 10 on 9 May 2016.

For the Board of Directors

Chairman Urbano Cairo

CAIRO COMMUNICATION

Consolidated Financial Statements and explanatory notes

Consolidated income statement for the year ended 31 December 2015

€ thousands	Notes	31 December 2015	31 December 2014
Revenue	1	226,582	240,266
Other revenue and income	2	9,403	11,927
Change in inventory of finished products	3	33	(28)
Raw materials, consumables and supplies	4	(21,864)	(24,589)
Services	5	(113,550)	(113,827)
Use of third-party assets	6	(20,420)	(22,811)
Personnel expense	7	(60,955)	(60,634)
Amortization, depreciation, provisions and impairment losses	8	(8,217)	(5,221)
Other operating costs	9	(1,672)	(2,121)
EBIT		**9,340**	**22,962**
Income / (loss) on investments	10	0	(2)
Net financial income	11	692	1,829
Pre-tax profit		**10,032**	**24,789**
Income tax	12	1,040	(973)
Profit from continuing operations		**11,072**	**23,816**
Loss from discontinued operations	13	**(1)**	**(1)**
Profit for the year		**11,071**	**23,815**
- Owners of the parent		11,053	23,791
- Non-controlling interests - discontinued operations		0	0
- Non-controlling interests - continuing operations		18	24
		11,071	**23,815**
Earnings per share (euro)			
Earnings per share - continuing and discontinued operations	15	0.141	0.304
- Earnings per share - continuing operations	15	0.141	0.304

Consolidated statement of comprehensive income for the year ended 31 December 2015

		31 December 2015	31 December 2014
Profit for the year		**11,071**	**23,815**
Other non-reclassifiable items of the comprehensive income statement			
Actuarial profit (loss) from defined benefit plans	25	(38)	(1,367)
Tax effect		10	376
Total comprehensive income for the year		**11,043**	**22,824**
- Owners of the parent		11,025	22,800
- Non-controlling interests - discontinued operations		0	0
- Non-controlling interests - continuing operations		18	24
		11,043	**22,824**

Consolidated statement of financial position at 31 December 2015

€ thousands

Assets	**Notes**	**31 December 2015**	**31 December 2014**
Property, plant and equipment	16	3,080	3,069
Intangible assets	17	60,917	56,871
Investments	18	62	62
Non-current financial assets	18	1,640	1,113
Deferred tax assets	19	4,186	3,983
Total non-current assets		**69,885**	**65,098**
Inventories	20	3,141	3,296
Trade receivables	21	78,539	79,957
Receivables from parents	30	3,167	6,539
Other receivables and other current assets	22	5,297	8,430
Cash and cash equivalents	23	125,776	149,061
Total current assets		**215,920**	**247,283**
Total assets		**285,805**	**312,381**

Equity and liabilities	**Notes**	**31 December 2015**	**31 December 2014**
Share capital		4,074	4,074
Share premium reserve		30,495	41,062
Prior-year earnings (losses) and other reserves		70,573	57,384
Profit for the year		11,054	23,791
Equity attributable to the owners of the parent		**116,196**	**126,311**
Non-controlling interests share capital and reserves		**54**	**36**
Total shareholders' equity	24	**116,250**	**126,347**
Non-current financial payables and liabilities	26	15,000	20,000
Post-employment benefits	25	13,315	13,398
Provisions for risks and charges	27	28,658	30,343
Total non-current liabilities		**56,973**	**63,741**
Current financial payables and liabilities	28	5,000	5,000
Trade payables	29	82,382	87,884
Payables to parents	30	818	156
Tax liabilities	31	3,560	5,487
Other current liabilities	32	20,822	23,766
Total current liabilities		**112,582**	**122,293**
Total liabilities		**169,555**	**186,034**
Total equity and liabilities		**285,805**	**312,381**

Consolidated statement of cash flows

€ thousands	31 December 2015	31 December 2014
CASH AND CASH EQUIVALENTS	**149,061**	**172,915**
OPERATING ACTIVITIES		
Profit for the year	11,071	23,815
Amortization/Depreciation	7,217	3,609
Income / (loss) on investments	0	2
Net financial income	(692)	(1,829)
Income tax	(1,040)	973
Change in post-employment benefits	(280)	1,439
Change in provisions for risks and charges	(1,685)	(4,639)
Cash flow from operating activities before changes in working capital	**14,591**	**23,370**
(Increase) decrease in trade and other receivables	4,551	10,047
Increase (decrease) in trade and other payables	(8,445)	(15,098)
(Increase) decrease in inventories	155	808
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	**10,852**	**19,127**
Income tax received (paid)	2,944	557
Financial expense paid	(95)	(512)
TOTAL NET CASH FROM OPERATING ACTIVITIES (A)	**13,701**	**19,172**
INVESTING ACTIVITIES		
(Acquisition) disposal net of PPE and intangible assets	(11,274)	(47,734)
Interest and financial income received	983	2,468
Net increase in other non-current assets	(527)	(622)
NET CASH USED IN INVESTING ACTIVITIES (B)	**(10,818)**	**(45,888)**
FINANCING ACTIVITIES		
Dividends paid	(21,152)	(21,152)
Re-measurement of defined benefit plans inclusive of tax effect	(28)	(991)
Increase (decrease) in financial payables	(5,000)	25,000
Other changes in equity	11	5
NET CASH USED IN FINANCING ACTIVITIES (C)	**(26,169)**	**2,862**
CASH FLOW OF THE YEAR (A)+(B)+(C)	**(23,286)**	**(23,854)**
NET CASH AND CASH EQUIVALENTS CLOSING BALANCE	**125,775**	**149,061**

Statement of changes in consolidated equity

€ thousands	Share capital	Share premium reserve	Prior-year earnings (losses) and other reserves	Interim dividend	Profit for the year	Equity attributable to owners of the parent	Non-controlling interests share capital and reserves	Total
Balance at 31 December 2012	**4,074**	**45,452**	**2,287**	**(10,126)**	**18,663**	**58,226**	**4**	**58,230**
Effects from application of amended IAS 19			(94)		94	0		0
Balance at 1 January 2013	**4,074**	**45,452**	**2,193**	**(10,126)**	**18,757**	**60,350**	**4**	**60,354**
Allocation of profit			18,757		(18,757)	**0**		**0**
Dividend distribution			(21,031)	10,126		**(10,905)**		**(10,905)**
Disposal of treasury shares			1,382			**1,382**		**1,382**
Actuarial profit (loss) from defined benefit plans			(370)		370	**0**		**0**
Other movements			7			**7**		**7**
Total comprehensive income for the year					73,824	**73,824**	8	**73,832**
Balance at 31 December 2013	**4,074**	**45,452**	**938**	**0**	**74,194**	**124,658**	**12**	**124,670**
Allocation of profit			74,194		(74,194)	**0**		**0**
Dividend distribution		(4,390)	(16,762)			**(21,152)**		**(21,152)**
Actuarial profit (loss) from defined benefit plans			(991)		991	**0**		**0**
Other movements			5			**5**		**5**
Total comprehensive income for the year					22,800	**22,800**	24	**22,824**
Balance at 31 December 2014	**4,074**	**41,062**	**57,384**	**0**	**23,791**	**126,311**	**36**	**126,347**
Allocation of profit			23,791		(23,791)	**0**		**0**
Dividend distribution		(10,567)	(10,585)			**(21,152)**		**(21,152)**
Actuarial profit (loss) from defined benefit plans			(28)		28	**0**		**0**
Other movements			11			**11**		**11**
Total comprehensive income for the year					11,025	**11,025**	18	**11,043**
Balance at 31 December 2015	**4,074**	**30,495**	**70,573**	**0**	**11,053**	**116,195**	**54**	**116,249**

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

€ thousands

	31 December 2015	related parties (*)	% of total	31 December 2014	% of total	% of total
Revenue	226,582	178	0.1%	240,266	165	0.1%
Other revenue and income	9,403	8	0.1%	11,927	51	0.4%
Change in inventory of finished products	33			(28)		
Raw materials, consumables and supplies	(21,864)			(24,589)		
Services	(113,550)	(2,436)	2.1%	(113,827)	(2,111)	1.9%
Use of third-party assets	(20,420)			(22,811)		
Personnel expense	(60,955)			(60,634)		
Amortization, depreciation, provisions and impairment losses	(8,217)			(5,221)		
Other operating costs	(1,672)			(2,121)		
Operating profit	**9,340**			**22,962**		
Income / (loss) on investments	0			(2)		
Net financial income	692			1,829		
Pre-tax profit	**10,032**			**24,789**		
Income tax	1,040			(973)		
Profit from continuing operations	**11,072**			**23,816**		
Loss from discontinued operations	**(1)**			**(1)**		
Profit for the year	**11,071**			**23,815**		

(*) Related party transactions are analyzed in Note 34

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

€ thousands

Assets	31 December 2015	related parties (*)	% of total	31 December 2014	related parties (*)	% of total
Property, plant and equipment	3,080			3,069		
Intangible assets	60,917			56,871		
Investments	62			62		
Non-current financial assets	1,640			1,113		
Deferred tax assets	4,186			3,983		
Total non-current assets	**69,885**			**65,098**		
Inventories	3,141			3,296		
Trade receivables	78,539	97	0.1%	79,957	471	0.6%
Receivables from parents	3,167	3,167	100.0%	6,539	6,539	100.0%
Other receivables and other current assets	5,297	47	0.9%	8,430	47	0.6%
Cash and cash equivalents	125,776			149,061		
Total current assets	**215,920**			**247,283**		
Total assets	**285,805**			**312,381**		

Equity and liabilities	31 December 2015	related parties (*)	% of total	31 December 2014	related parties (*)	% of total
Share capital	4,074			4,074		
Share premium reserve	30,495			41,062		
Prior-year earnings (losses)	70,573			57,384		
Profit for the period	11,054			23,791		
Equity attributable to the owners of the parent	**116,196**			**126,311**		
Non-controlling interests share capital and reserves	54			**36**		
Total shareholders' equity	**116,250**			**126,347**		
Non-current financial payables and liabilities	15,000			20,000		
Post-employment benefits	13,315			13,398		
Provisions for risks and charges	28,658			30,343		
Total non-current liabilities	**56,973**			**63,741**		
Current financial payables and liabilities	5,000			5,000		
Trade payables	82,382	1,285	1.6%	87,884	1,428	1.6%
Payables to parents	818	818	100.0%	156	156	100.0%
Tax liabilities	3,560			5,487		
Other current liabilities	20,822			23,766		
Total current liabilities	**112,582**			**122,293**		
Total liabilities	**169,555**			**186,034**		
Total equity and liabilities	**285,805**			**312,381**		

(*) Related party transactions are analyzed in Note 34

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

€ thousands	31 December 2015	related parties	31 December 2014	related parties
CASH AND CASH EQUIVALENTS	**149,061**		**172,915**	
OPERATING ACTIVITIES				
Profit for the year	11,071	(2,250)	23,815	(1,895)
Amortization/Depreciation	7,217		3,609	
Income / (loss) on investments	0		2	
Net financial income	(692)		(1,829)	
Income tax	(1,040)		973	
Change in post-employment benefits	(280)		1,439	
Change in provisions for risks and charges	(1,685)		(4,639)	
Cash flow from operating activities before changes in working capital	**14,591**	**(2,250)**	**23,370**	**(1,895)**
(Increase) decrease in trade and other receivables	4,551	3,746	10,047	(982)
Increase (decrease) in trade and other payables	(8,445)	519	(15,098)	1,392
(Increase) decrease in inventories	155		808	
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	**10,852**	**2,015**	**19,127**	**(1,485)**
Income tax received (paid)	2,944		557	
Financial expense paid	(95)		(512)	
TOTAL NET CASH FROM OPERATING ACTIVITIES (A)	**13,701**	**2,015**	**19,172**	**(1,485)**
INVESTING ACTIVITIES				
(Acquisition) disposal net of PPE and intangible assets	(11,274)		(47,734)	
Interest and financial income received	983		2,468	
Net increase in other non-current assets	(527)		(622)	
NET CASH USED IN INVESTING ACTIVITIES (B)	**(10,818)**	**0**	**(45,888)**	**0**
FINANCING ACTIVITIES				
Dividends paid	(21,152)		(21,152)	
Re-measurement of defined benefit plans inclusive of tax effect	(28)		(991)	
Increase in financial payables	(5,000)		25,000	
Other changes in equity	11		5	
NET CASH USED IN FINANCING ACTIVITIES (C)	**(26,169)**	**0**	**2,862**	**0**
CASH FLOW OF THE PERIOD (A)+(B)+(C)	**(23,286)**	**2,015**	**(23,854)**	**(1,485)**
NET CASH AND CASH EQUIVALENTS CLOSING BALANCE	**125,775**		**149,061**	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2015

Main activities

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

The Cairo Communication Group operates as a publisher of magazines and books (Cairo Editore – and its division Editoriale Giorgio Mondadori – and Cairo Publishing), as a TV publisher (La7), as a multimedia advertising broker selling advertising time and space on television, in print media and in stadiums (Cairo Communication and Cairo Pubblicità), as a publisher of electronic content (Il Trovatore), and as a network operator (Cairo Network S.r.l.).

The registered offices are at 56 Via Tucidide, Milan, home also to the administrative offices, the advertising brokerage services and Il Trovatore and Cairo Network. The publishing business is managed at Cairo Editore, at 55 Corso Magenta, Milan. The publishing business of La7 is managed mainly in Rome at the registered offices and the TV studios of La7 S.p.A. (former La7 S.r.l.) at 229 Via della Pineta Sacchetti and 32 Via Novaro, respectively.

Figures are shown in thousands of Euro.

Basis of preparation

Structure, form and content of the consolidated financial statements

The consolidated financial statements at 31 December 2015 have been prepared in accordance with IFRS issued by the International Accounting Standard Board ("IASB") and endorsed by the European Union, as well as with the provisions arising from art. 9 of Legislative Decree no. 38/2005. The term IFRS is used to mean all the international accounting standards ("IAS") and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC").

The **consolidated income statement** is presented by nature, highlighting interim operating results and pre-tax results, and in order to allow a better measure of ordinary operating management performance. Furthermore, cost and revenue components deriving from events or transactions which, by their nature or size are considered non-recurring, are also separately identified in the financial statements and the notes in accordance with the definition of non-recurring events and transactions held in Consob Communication No. 6064293 of 28 July 2006.

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

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

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

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

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

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

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

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

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

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

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

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

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

The consolidated financial statements are prepared on a going concern basis. The Cairo Communication Group believes that even in the presence of a difficult economic and financial situation, significant uncertainties do not exist (as defined by paragraphs 25 and 26 of IAS 1) on the Company's ability to continue as a going concern, given both the profitability outlook of Group companies and the Company's financial position.

The main accounting policies adopted are unchanged versus those used last year, and are explained below.

Basis and scope of consolidation

The scope of consolidation, based on the full method, includes consolidated subsidiaries (control is defined as the power of the Parent to determine the financial and operational policies of the company in order to derive benefits from its operations) and, based on the single line method, consolidated associates, over which significant influence is exercised.

The consolidated financial statements at 31 December 2015 include the financial statements of the Parent and Cairo Communication S.p.A. and the following direct or indirect subsidiaries and associates:

Company	Head office	Share capital at 31/12/15:	% of investment	Reporting date	Business	Consolidation method
Cairo Communication S.p.A.	Milan	4,074		31/12	Advertising	Full
Cairo Editore S.p.A.	Milan	1,043	99.95	31/12	Publishing	Full
Diellesei S.r.l. in liquidation	Milan	10	60	31/12	In liquidation	Full re assets and liabilities (*)
La 7 S.p.A. (former La7 S.r.l.)	Rome	1,020	100	31/12	TV publishing	Full from 30 April 2013
Cairo Pubblicità S.p.A.	Milan	2,818	100	31/12	Advertising	Full
Cairo Network S.r.l.	Milan	5,500	100	31/12	Network operator	Full
Cairo Publishing S.r.l.	Milan	10	100	31/12	Publishing	Full
Il Trovatore S.r.l.	Milan	25	80	31/12	Internet	Full
Edizioni Anabasi S.r.l.	Milan	10	99.95	31/12	Publishing	Full

(*) the income statement is consolidated on a single line basis in profit/(loss) from discontinued operations

In 2015, there were no changes to the scope of consolidation from the consolidated financial statements for the year ended 31 December 2014.

On 23 February 2016, through deed executed at the office in Milan of notary Luca Barassi, Index no. 16744, the Extraordinary General Meeting of the subsidiary La7 S.r.l. approved its transformation into a joint-stock company; the registered office, corporate object, share capital and the duration remain unchanged.

The financial results of subsidiaries acquired or sold during the year are included in the consolidated income statement from the actual acquisition date until the actual date of sale. Where necessary, adjustments to subsidiary financial statements are made in order to harmonize them with the Group accounting policies.

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

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

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

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

Business combinations

The acquisition of subsidiaries is recognized using the acquisition method. The acquisition price is calculated by the sum of current values, at the exchange date, of the assets acquired, liabilities assumed, financial instruments issued by the Group in exchange for the control of the acquired company.

The subsidiary's assets, liabilities and identifiable contingent liabilities that meet the conditions of IFRS 3 are recognized at their current value on the acquisition date.

Goodwill arising from the purchase is recognized as an intangible asset and is initially measured at cost, corresponding to that portion of the acquisition price paid by the Group exceeding the carrying amount of the recognized assets, liabilities and identifiable contingent liabilities.

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

Equity attributable to non-controlling interests can be measured at fair value or in proportion to the net assets recognized for the acquired company, at the acquisition date. The measurement method is chosen based on type of transaction.

Non-controlling interests, investments in inactive subsidiaries and investments in subsidiaries of small value are measured using the cost at the subscription method, reflecting any impairment losses.

Investments

Associates

Associates are those over which the Group can exercise significant influence through participation in decisions regarding financial and operating policies, but holds neither control nor joint control.

The financial results, assets and liabilities of associates are consolidated using the equity method.

Using this method, investments in associates are recognized in the statement of financial position at cost, adjusted for changes subsequent to the acquisition of the net assets of associates, net of any impairment losses on individual investments. Any losses exceeding the Group share therein are not recognized, unless the Group has a commitment relating to loss coverage. The excess of acquisition cost over the Group share of carrying amount of assets, liabilities and identifiable contingent liabilities of the associate at the acquisition date is recognized as goodwill. Every year, goodwill is tested for impairment.

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

Goodwill

Goodwill arising from the acquisition of a subsidiary corresponds to that portion of the acquisition price paid by the Group that exceeds the Group share of the fair value of the assets, liabilities and identifiable contingent liabilities of a subsidiary, at the acquisition date. Goodwill is recognized as an intangible asset with an indefinite life and is not amortized. It is reviewed annually to identify any impairment loss. Impairment losses are recognized directly in profit and loss and are not subsequently reversed. In the absence of a standard or a specific interpretation on the subject, in the case of the acquisition of a non-controlling interest in an existing subsidiary, up to 31 December 2009, the difference between the cost of acquisition and the carrying amount of the assets and liabilities acquired is recognized as goodwill.

Goodwill arising from acquisitions carried out before transition to IFRS is maintained at the amounts derived from the application of Italian GAAP at that date and is tested for impairment from that date.

Translation of foreign currency items

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

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

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

Revenue and cost recognition

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

- Revenue is recognized based on the probability with which the company will enjoy the economic benefits and in the extent to which the amount can be reliably determined. Revenue is stated net of any adjustments.
- Advertising revenue is recognized at the moment the advertisement is broadcast or published. Revenue from publications is recognized at the date of publication, net of reasonably estimated returns.
- Revenue from the sale of magazine subscriptions is recognized on the basis of the magazines published and distributed during the period.
- Pre-publication and launch costs are recognized in profit and loss when incurred.
- Interest income and expense are recognized on an accruals basis.
- Dividends are recognized when the right of the shareholders to receive the payment is established.
- The recharges of costs incurred on behalf of third parties are recognized as a reduction in the cost to which they relate.

Taxes

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

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

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

Cairo Communication and its subsidiaries Cairo Editore S.p.A., Cairo Pubblicità S.p.A., Diellesei S.r.l. in liquidation, Cairo Publishing S.r.l., La7 S.p.A. and Cairo Network S.r.l. participate in the national tax consolidation scheme of UT Communications S.p.A., in accordance with art. 117/129 of the Consolidated Income Tax Act.

The consolidation scheme, which regulates economic aspects pertaining to the sums deposited or received against the advantages or disadvantages arising from the national tax consolidation scheme, also allows for any increased costs or decreased benefits incurred by the companies, by participating in this procedure, to be repaid by the parent.

UT Communications S.p.A. acts as the tax parent and determines a single taxable base for the group of companies that participate in the national tax consolidation scheme, which thereby benefits from the ability of offsetting taxable profits against taxable losses in one tax return.

Each company that participates in the national tax consolidation scheme transfers its taxable profit or loss to the tax parent. For any such taxable profit reported by a subsidiary, UT Communications S.p.A. recognizes receivables equal to the IRES payable. Conversely, for any such taxable loss, reported by a subsidiary, UT Communications recognize a payable equal to IRES due on the loss that has been contractually transferred at Group level.

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

Post-employment benefits

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

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

Non-current assets

Intangible assets

Costs, including ancillary costs incurred for the acquisition of resources with no physical substance, are recognized under intangible assets when the cost is quantifiable and the asset is clearly identifiable and controlled by the Group, and where the use of the asset will generate probable future benefits to the Group. These are valued at their acquisition or production cost, including related costs – to the extent to which they are considered to have a finite life – and they are amortized to reflect their remaining useful economic lives. The amortization periods of intangible assets of various types are as follows:

Concessions, licenses, trademarks and similar rights	3 to 5 years for application software licenses
Other:	
Software	3 to 5 years
Publication titles	20 years
Television rights	Based on their availability period

Publication titles are amortized over a period of 20 years from the date of their acquisition based on their remaining useful lives. This amortization period is regularly reviewed to take account of the financial performance of the subsidiaries that own the title.

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

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

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

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

Property, plant and equipment

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

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

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

Property	3%
General equipment	20%
Motor vehicles	20%-25%
Plant and equipment	10%
Office equipment and furniture	10%-12%
Electronic equipment	20%

Land is not depreciated.

The above PPE depreciation rates are reduced by 50% during their first year of use, this percentage representing the weighted average of the entry to use of new assets, on an annual basis. Depreciation begins when the asset is ready for use.

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

The remaining useful lives of assets are reviewed annually and if incremental maintenance or other work has been carried out which changes the remaining useful life of the investment, these are adjusted accordingly.

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

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

Impairment of assets

At least once a year, the Group reviews the recoverability of the intangible assets with an indefinite useful life, of intangible assets under development, and of investments and publication titles, and whenever there are potential indicators of an impairment loss on PPE and intangible assets with a finite useful life, in order to determine whether such assets may have suffered an impairment loss. When such indications are present, the carrying amount of the asset is reduced to reflect recoverable amount. The recoverable amount of an asset is the greater of its fair value less costs to sell, and its value in use. The fair value of a listed investment is determined according to its market price at the reporting date, in case the Stock Market price is considered to represent the effective value of the investment. In the absence of market values, estimates and valuation methods are applied based on data which is in any case evident on the market. To determine an asset's value in use, the Group calculates the present value of future estimated cash flows, inclusive of tax, by applying a pre-tax discount rate which reflects the current market valuation, including the time value of money and the specific risks inherent to the asset.

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

Current assets and liabilities

Inventories

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

Receivables

Trade and other current assets are recognized at their estimated realizable value.

Financial assets

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

At the subsequent reporting dates, the financial assets that the Company has the intention and the ability to hold to maturity (held-to-maturity investments) are recognized at amortized cost, net of any impairment losses, to reflect write-downs, if any.

Investments other than those held to maturity are classified as held for trading or available for sale and are measured at the end of each reporting period at their fair value. When financial assets are held for trading, gains and losses arising from fair value changes are recognized in profit and loss. In the case of available-for-sale financial assets, gains and losses arising from fair value changes are recognized in comprehensive income. When available-for-sale financial assets are sold, redeemed or transferred, cumulative gains or losses previously recognized in comprehensive income must be reclassified from equity to profit/ (loss) for the year. This reserve is also used if alignment to fair value results in subsequent impairment of the asset until the reserve is used up. Any additional loss exceeding the reserve, should it result in an impairment loss, is taken to profit and loss.

Regarding measurement of available-for-sale assets, the directors have chosen as impairment indicators, the decline in fair value below cost of over 50%, or for a period exceeding 24 months.

Cash and cash equivalents

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

Cash and cash equivalents are recognized at their nominal amount.

Borrowings, bank loans and overdrafts

Borrowings, interest-bearing bank loans and bank overdrafts are recognized based on the amount cashed net of transaction costs, and subsequently measured at amortized cost using the current interest rate method.

Trade payables

These are recognized at their nominal amount.

<u>Equity</u>

Treasury shares

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

Dividends paid

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

<u>Provisions for risk and charges</u>

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

Derivative financial instruments

Hedging transactions, qualified for accounting purposes as "Financial assets held for trading", cover exchange rate risks on foreign currency payables (forward currency purchases coinciding with the maturity of contractual payments).

The initial valuation of derivatives is performed at fair value at the date of initial recognition. Fair value changes are recognized in profit or loss.

Use of estimates

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

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

The items most susceptible to these uncertainties are the allowance for impairment, inventory write-downs, non-current assets (intangible assets and investments), deferred tax assets, post-employment benefits and the provisions for risk and charges.

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

Allowance for doubtful accounts

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

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

Deferred tax assets

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

Recoverable amount of non-current assets (including goodwill)

Non-current assets include property, plant and equipment, intangible assets (including goodwill), investments and other financial assets. Management periodically reviews the carrying amount of the non-current assets held and used, and those of assets held for sale, as and when circumstances require such revision. This is performed by the comparison of the carrying amount of the asset and the greater of the fair value, less costs to sell, and value in use. Fair value is determined according to market prices. In the absence of market value, estimates and valuation models are used based on data available on the market. Value in use is determined based on the estimate of expected cash flows from the use or sale of the asset and is discounted using appropriate discount rates. When the carrying amount of a non-current asset has suffered an impairment loss, the Group recognizes an impairment loss equal to the positive difference between the greater of carrying amount of the asset and its recoverable amount from its use or sale, as determined according to the Group's most recent plans.

For the preparation of the consolidated financial statements at 31 December 2015, and in particular in the performance of impairment tests on intangible assets and property, plant and equipment, the different segments of the Group have taken into account the expected 2016 performance, whose assumptions and results are in line with the information disclosed in the section on "*significant events after the reporting period and business outlook*" in the Directors' Report. In addition, for the subsequent years of the plan, necessary adjustments have been cautiously made to take account of the deep market changes resulting from the current economic and financial crisis. No significant impairment was required based on such figures in the plan.

Provisions for risks and charges

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

Risk management

The main fiscal, legal and financial risks to which the Cairo Communication Group is exposed, as well as the policies put in place by Management for their management, are explained in Note 35. Reference is made to the Directors' Report for operational and business risks.

1. Accounting standards, amendments and interpretations effective as from 1 January 2015

The following accounting standards, amendments and interpretations, revised also following IASB's yearly improvement process, were applied for the first time starting from 1 January 2015:

IFRIC 21 – Levies: The interpretation, issued by the IASB in May 2013, provides guidance on when to recognize liabilities for a levy imposed by a government, with the exception of those governed by other standards (i.e. IAS 12 – Income tax). IAS 37 establishes the recognition criteria of liabilities, one of which is the existence of a present obligation on an entity resulting from past events (obligating event). The interpretation clarifies that the obligating event that gives rise to liability for payment of a levy is explained by the relevant legislation that gives rise to its payment. IFRIC 21 is applicable according to the IASB for annual periods beginning on or after 1 January 2014, while, according to the EU, for annual periods beginning on or after 17 June 2014. The application of the interpretation from 1 January 2015 had no effects on the figures of the Annual Report at 31 December 2015.

Improvements to IFRS: 2011-2013 Cycle: On 12 December 2013, the IASB published "*Annual Improvements to IFRSs*: *2011-2013 Cycle*", which acknowledges the amendments to the standards as part of their annual improvement process. According to the IASB, the amendments became effective for financial statements that begin on or after 1 July 2014. According to the EU, entry into force has been postponed to the financial statements beginning on or after 1 January 2015. These amendments are applied prospectively and had no effects on the figures of the Annual Report at 31 December 2015.

The main amendments regard:

- *IFRS 1 First-time Adoption of International Financial Reporting Standards* – It clarifies that a first-time adopter, as an alternative to the application of a principle currently in force on the date of the first IFRS financial statements, may opt for early application of a new standard intended to replace the principle in force. The option is admitted when the new standard allows early application. The entity is required to apply the same version of the standard in all periods presented in the first IFRS financial statements.
- *IFRS 3 Business combinations* – The amendments aim to clarify the exclusion from the application scope of IFRS 3 of all types of joint arrangements, not only of joint ventures.
- *IFRS 13 Fair Value Measurement* – IFRS 13, paragraph 52 (*portfolio exception*), in its current version, restricts to financial assets and liabilities included in the application scope of IAS 39 the possibility of fair value measurement on a net basis. The amendment clarifies that the possibility of fair value measurement on a net basis also applies to contracts within the application scope of IAS 39, but that do not meet the definition of financial assets and liabilities in IAS 32, such as contracts to buy and sell non-financial items that can be settled net in cash.
- *IAS 40 – Investment Property* - The amendment clarifies that IFRS 3 and IAS 40 are not mutually exclusive and that, in order to determine whether the purchase of a property falls within the scope of IFRS 3, it is necessary to refer to the specific indications in IFRS 3; instead, to determine whether the purchase of such property falls within the scope of IAS 40, it is necessary to refer to the specific indications in IAS 40.

2. Accounting standards, amendments and interpretations approved by the EU and applicable from annual periods after 1 January 2015

Amendments to IAS 19 - Employee contributions to defined-benefit plans - The amendment, issued by the IASB in November 2013, introduces simplifications to account for defined-benefit plans that provide for contributions by employees or third parties. Specifically, the amendments to IAS 19 allow recognition of employee or third-party contributions as a reduction of service costs during the period in which services where rendered, if the following conditions are met:

- employee or third-party contributions are formally provided for in the terms of the plan;
- the contributions are linked to services rendered; and
- the amount of the contributions is independent of the number of years of service.

In all other cases, the recognition of these contributions will be more complex, as they will be allocated to each period of the plan through the actuarial calculation of the relating liabilities. According to the IASB, the amendments became effective for financial statements that began on or after 1 July 2014. According to the EU, entry into force has been postponed to the financial statements beginning on or after 1 February 2015. These amendments are applied retrospectively, but will have no effects on the figures of the Annual Report at 31 December 2015.

Improvements to IFRS: 2010-2012 Cycle: On 12 December 2013, the IASB published "*Annual Improvements to IFRSs: 2010-2012 Cycle*", which acknowledges the amendments to the standards as part of their annual improvement process. According to the IASB, the amendments became effective for financial statements that began on or after 1 July 2014. According to the EU, entry into force has been postponed to the financial statements beginning on or after 1 February 2015. These amendments are applied prospectively.

The main amendments regard:

- *IFRS 2 Share-based payments* – Amendments have been made to the definitions of "vesting condition" and "market condition", while further definitions have been added of "performance condition" and "service condition" (previously included in the broad definition of "vesting condition").
- *IFRS 3 Business combinations*- The amendments clarify that a contingent consideration classified as an asset or liability should be measured at fair value at each balance sheet date, regardless of whether the contingent consideration is a financial instrument to which IAS 39 applies or a non-financial asset or liability. Changes in fair value are presented in profit/(loss) for the year.
- *IFRS 8 Operating segments* - The amendments require an entity to disclose those factors used by management to identify the entity's reportable segments when operating segments have been aggregated, including a description of the aggregated operating segments and economic indicators considered in determining whether these operating segments have "similar economic characteristics". The amendments also clarify that the reconciliation between total assets of the operating segments and the total assets of the entity is provided only in the event that the total assets of the operating segments are regularly provided to the chief operating decision-maker ("CODM").
- *IFRS 13 Fair Value Measurement* – Amendments have been made to the *Basis for Conclusions* in order to clarify that short-term receivables and payables are still able to be measured on an undiscounted basis where the effect of discounting is immaterial.
- *IAS 16 Property, plant and equipment and IAS 38 Intangible assets* – The amendments have eliminated inconsistency in the recognition of accumulated depreciation where the revaluation method of a property, plant or equipment or an intangible asset is applied. The new requirements clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of

the carrying amount of the asset, and that accumulated depreciation is equal to the difference between gross carrying amount and carrying amount, less subsequent depreciation.

- *IAS 24 Related Party Disclosures* – following the amendment to IAS 24, the IASB:
  - has extended the definition of "related party" to entities that provide within the group key management personnel services (these entities are usually named "management companies");
  - it has clarified that it is sufficient to provide the total amount of the cost charged by the management company without separately indicating each type of benefit that the management company has paid its employees.

Amendments to IFRS 11 Joint arrangements: The amendments, published by the IASB in May 2014 and approved by the EU in November 2015, provide clarification on the accounting of purchases of interests in a joint operation whose activity constitutes a business. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016; early application is allowed.

Amendments to IAS 16 and IAS 38 Property, plant and equipment and Intangible assets: The amendments, published by the IASB in May 2014 and approved by the EU in December 2015, aim to clarify that depreciation criteria regarding property, plant and equipment, determined in accordance with revenue are not appropriate, as the revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of economic benefits that arise from the asset itself.

The IASB also clarified that revenue is not appropriate to measure the consumption of the economic benefits generated by an intangible asset. This presumption may, however, be overcome in limited circumstances. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016; early application is allowed.

Amendment to IAS 27 Separate financial statements. The amendments to IAS 27, published in August 2014 and approved by the EU in December 2015, will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in the separate financial statements. The amendments will be retrospectively applicable for financial statements beginning on or after 1 January 2016; early application is allowed.

Improvements to IFRS: 2012-2014 Cycle: In September 2014, the IASB published “Annual Improvements to IFRSs: 2012-2014 Cycle”, approved by the EU in December 2015, which acknowledges the amendments to the standards as part of their annual improvement process. The amendments are applied to financial periods beginning on or after 1 January 2016. Early application is allowed.

The main amendments regard:

- *IFRS 5 Non-current assets held for sale and discontinued operations –* The amendment introduces specific guidance to IFRS 5 in case an entity reclassifies an asset (or disposal group) from held for sale to held-for-distribution (or vice versa), or when recognition of an asset held-for-distribution ceases.
- *IAS 19 Employee benefits* - The amendment to IAS 19 clarifies that high quality corporate bonds used to determine the discount rate of post-employment benefits must be issued in the same currency used in the payment of the benefits.
- *IAS 34 Interim financial reporting* - The amendment clarifies the requirements in the event that the disclosures required are presented in the interim financial report but not in the interim financial statements. The amendment requires that the disclosures be incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report and that the document be available to users of the financial statements on the same terms as the interim financial statements and at the same time.
- *IFRS 7 Financial instruments: disclosures*- The document introduces additional guidance to clarify whether a servicing contract constitutes a continuing involvement in a transferred asset for the purposes of applying these disclosure requirements to the transferred assets.

Amendment to IAS 1 Disclosure initiative: The amendments to IAS 1, published in December 2014 and approved by the EU in December 2015, are applied to financial periods beginning on or after 1 January 2016. Early application is allowed.

The main amendments regard:

- *Materiality and aggregation*: An entity must not reduce the understandability of its financial statements by obscuring useful information with irrelevant information or by aggregating relevant information that has different characteristics or function. Additional subtotals must be reconciled to the subtotal and totals required.
- *Information to be presented in the statement of financial position and of comprehensive income:* specific items of profit or loss, other comprehensive income and the statement of financial position can be disaggregated. Subtotals must: be made up of items recognized and measured in accordance with IFRS, be presented and labeled in order to make the components of the subtotal clear and understandable, and be consistent from period to period.
- *Statement of other comprehensive income for the year* The share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in

aggregate form but separately from other comprehensive income, as a single item, based on whether the items will or will not subsequently be reclassified to profit or loss.

- *Notes – Structure* the entity is free to decide the order of presentation in the financial statements, but must consider the effect on the understandability and comparability of its financial statements, emphasizing the most relevant operating segments for the understanding of its financial performance and financial position.

3. Accounting standards, amendments and interpretations yet to be approved by the EU and applicable from annual periods after 1 January 2015

IFRS 15 - Revenue from contracts with customers: The standard, published by the IASB in May 2014, introduces a general model to determine whether, when and to what extent will revenue be recognized. The standard replaces the recognition criteria set out in IAS 18 - *Revenue,* IAS 11 - *Work in progress,* IFRIC 13 - *Customer Loyalty Programmes,* IFRIC 15 - *Agreements for the Construction of Real Estate,* IFRIC 18 - *Transfers of Assets from Customers,* and SIC-31 - *Revenue: Barter Transactions Involving Advertising Services.*

IFRS 15 applies to financial periods beginning on or after 1 January 2018, and early application is allowed. On first-time application, IFRS 15 is applied retrospectively. Certain simplifications are, however, applicable ("practical expedients"), as well as a different approach ("cumulative effect approach") that avoids the restatement of annual periods presented in comparative information; in the latter case, the effects arising from the application of the new standard should be recognized in the initial equity of the first annual period for which IFRS 15 is applied. The Group is still assessing the potential effects of the application of IFRS 15 on the consolidated financial statements.

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

Amendment to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures. The amendment issued by the IASB in September 2014 highlights the changes to address an inconsistency in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the changes is that a full gain or loss is recognized when a transaction involves a business. The changes apply prospectively to financial statements of annual periods beginning on (or after) 1 January 2016. The IASB, however, in December 2015 decided to postpone this date of entry into force, as certain inconsistencies were found with some paragraphs in IAS 28. Following IASB's decision, the European Union has blocked the approval process, awaiting publication of the new document with the new date of entry into force.

IFRS 16 – Leases: The standard, issued by the IASB in January 2016, proposes material changes to the accounting requirements of leases in the financial statements of the lessee, who is required to recognize assets and liabilities arising from leases in the balance sheet, introducing a single accounting model for operating and finance leases.

Specifically, the lessee is required to recognize liabilities arising from leases at the present amount of future lease payments. The lessee will also be required to record under assets the rights of use of the underlying asset at the same amount assigned to the corresponding liabilities. Following initial recording, the right of use will be amortized over the term of the lease or over the useful life of the asset (if lower). The liability will be gradually paid through payment of the instalments, with recognition of the corresponding interest. The liability is determined by taking account only of the fixed component of the lease instalments and of inflation-based components, if any, not of variable components. Future payments, thus determined, will be discounted according to the contractual rate or the lessee's incremental borrowing rate, over the period when the lease is deemed non-cancellable. The IASB has required the standard to be applied for financial periods beginning on 1 January 2019. Early application is allowed for entities who apply IFRS 15 *Revenue from contracts with customers*, except for special considerations from EFRAG in the process of endorsement.

Amendment to IAS 12 - Recognition of deferred tax assets for unrealized losses: The amendment, issued by the IASB in January 2016, clarifies how to account for deferred tax assets related to debt instruments measured at fair value.

The amendments will be applied to financial periods beginning on or after 1 January 2017. Early application is allowed.

The Group will adopt these new standards, amendments and interpretations based on their date of application, and will assess the potential impacts following approval by the European Union.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

Regarding the items of the consolidated income statement, following is the analysis of the main items of cost and revenue for the year ended 31 December 2015.

The comparative figures refer to the annual financial report at 31 December 2014.

1. Revenue

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

(€ thousands)	31/12/2015	31/12/2014
Gross operating revenue	250,603	266,014
Advertising agency discounts	(24,021)	(25,748)
Net operating revenue	**226,582**	**240,266**

Revenue is generated exclusively in Italy and an analysis by geographical area is pointless. An analysis of revenue by business segment is provided in Note 14.

Gross revenue can be analyzed as follows:

Description	**31/12/2015**	**31/12/2014**
TV advertising	141,849	155,215
Print media advertising	26,916	27,977
Stadium signage	3,057	2,537
Internet advertising	1,330	1,244
Revenue from concession of programming schedule spaces	1,200	982
Other TV revenue	1,221	2,180
Magazine over-the-counter sales	72,557	73,400
Subscriptions	2,831	2,883
Books and catalogues	971	981
VAT relating to publications	(1,432)	(1,486)
Other	103	100
Total gross operating revenue	**250,603**	**266,014**

As explained more in detail in the Directors' Report, in 2015:

- it confirmed the excellent circulation results, with revenue at Euro 72.6 million versus Euro 73.4 million in 2014,
- Group gross advertising sales from magazines, which reached Euro 26.1 million, dropped by approximately 4% versus Euro 27.2 million in 2014;
- gross advertising revenue on La7 and La7d channels amounted to Euro 140.1 million (Euro 152.9 million in 2014).

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2. Other revenue and income

"Other revenue and income", amounting to Euro 9,403 thousand (Euro 11,927 thousand in 2014), consist of revenue from pulp and paper sales, prior-year income and release of risk provisions also as a result of settlement agreements defined during the year, charging of technical advertising costs and other items of revenue other than operating revenue.

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3. Changes in finished goods

The item amounts to Euro 33 thousand (a negative Euro 28 thousand in 2014), arising from the use of the magazine sales during the ordinary course of business relating to Cairo Editore S.p.A. and Cairo Publishing S.r.l.

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4. Raw materials, consumables and supplies

Raw materials mainly relate to the activities of Cairo Editore, Cairo Publishing and La7 and include the main items:

Description	31/12/2015	31/12/2014
Paper	20,414	21,973
Set design materials	96	160
Equipment and sundry materials	1,166	1,678
Change in inventories of paper, equipment and sundry materials, TV programmes and the like	188	778
Total raw materials, consumables and supplies	**21,864**	**24,589**

The change in inventories, amounting to Euro 188 thousand, refers to:

- a negative Euro 168 thousand for the change in inventories of in-house TV programmes of La7 S.p.A. or programmes purchased externally and yet to be aired, rights on films, soaps and the like and related ancillary costs within one year and yet to be aired;
- Euro 356 thousand for the change in inventories of paper and other consumables of Cairo Editore S.p.A.

5. Services

As shown in the following chart, this item mainly comprises advertising concessionaire direct costs, external processing, consultancies and collaborations mainly for bordereau, TV costs, promotion costs, organization costs and overheads. and can be analyzed as follows:

Description	31/12/2015	31/12/2014
Direct brokerage costs	13,705	13,874
Technical costs	1,001	857
Administrative costs	5,401	5,384
Consultancies and collaborations	12,619	13,631
External processing	17,231	17,098
Sub-contracted TV programmes	20,502	17,794
Professional and artistic services and other TV consulting	9,517	10,510
Shooting, crew, editing, and outdoor TV activities	1,103	1,904
News and sport information services and TV news agency	1,713	1,994
TV broadcasting services	12,458	11,806
TV artwork	511	523
Outdoor TV links	923	612
Advertising and launch promotion costs	1,041	-
Advertising and promotion	6,040	6,655
Organizational costs and overheads	9,785	11,185
Total services	**113,550**	**113,827**

"Advertising and launch costs" refers to the advertising and promotional costs incurred for the new magazine "Nuovo TV". Including the pre-publication and study phase, these costs totaled approximately Euro 1,406 thousand.

"Direct brokerage costs" also includes Euro 2,357 thousand of Torino Football Club S.p.A., a subsidiary of U.T. Communications S.p.A., under the advertising concession agreement with Cairo Pubblicità S.p.A. as explained in Note 34 to related-party transactions.

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6. Use of third-party assets

The item amounts to Euro 20,420 thousand (Euro 22,811 thousand at 31 December 2014) and mainly includes costs for journalistic, sport and TV programme rights, lease payments for property, office equipment and royalties for copyrights.

Description	31/12/2015	31/12/2014
Lease payments for property	3,445	3,660
Rental of TV studios	545	660
Rental fees for TV studio equipment	825	1,454
TV programme rights	7,302	8,464
Sport rights	93	209
Journalistic rights	2,958	2,553
Copyrights (SIAE, IMAIE, SCF, AFI)	3,772	3,933
Royalty expense and sundry rights	695	851
Other costs for use of third-party assets	785	1,027
Total costs for use of third-party assets	**20,420**	**22,811**

7. Personnel expense

The item can be analyzed as follows:

Description	31/12/2015	31/12/2014
Wages and salaries	44,590	43,613
Social security charges	14,942	15,068
Post-employment benefits	1,200	1,087
Other expense	223	866
Total	**60,955**	**60,634**

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8. Amortization, depreciation, provisions and impairment losses

This item can be analyzed as follows:

Description	31/12/2015	31/12/2014
Amortization of intangible assets	6,716	3,155
Depreciation of property, plant and equipment	502	452
Allowance for impairment	837	1,344
Provisions for risk and charges	162	270
Total amortization, depreciation, provisions and impairment losses	**8,217**	**5,221**

The increase in “amortization and depreciation” is attributable to the amortization of television rights acquired by La7 effective from 1 May 2013.

Mention should be made that the acquisition of La7 had been accounted for under IFRS 3, applying the so-called "acquisition method", taking into account the future income capacity of La7 at the acquisition date.

This approach had resulted in the full write-down of non-current assets at the date of acquisition of La7, consisting primarily of TV broadcasting rights, and specific technical equipment, whose value was deemed unrecoverable in view of the income prospects of La7 at the acquisition date. It should be noted that, as a result of impairments made in the allocation of the purchase price of the investment in La7 S.r.l., in the consolidated financial statements, with respect to the separate financial statements of La7 S.p.A. (former La7 S.r.l.), lower levels of depreciation of "property, plant and equipment" - Euro 2,210 thousand - and amortization of “intangible assets” - Euro 7,004 thousand - were recognized in 2015.

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9. Other operating costs

The item can be analyzed as follows:

Description	31/12/2015	31/12/2014
Deductible and non-deductible taxes during the year	194	219
Prior-year expenses	536	1,053
Other	942	849
Total other operating costs	**1,672**	**2,121**

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10. Income / (loss) on investments

In 2015, the figure came to 0 (a negative Euro 2 thousand in 2014)

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11. Net financial income

This item refers to financial income totaling Euro 1,003 thousand (Euro 2,468 thousand at 31 December 2014), net of financial expense of Euro 311 thousand (Euro 639 thousand at 31 December 2014), analyzed as follows:

Description	31/12/2015	31/12/2014
Interest income on bank and postal accounts	754	2,452
Other	249	16
Total financial income	**1,003**	**2,468**
Bank interest expense	(71)	(113)
Financial charges from IAS post-employment benefits	(196)	(352)
Other financial expense	(44)	(174)
Total financial expense	**(311)**	**(639)**
Net financial income	**692**	**1,829**

Financial income includes interest on fixed-term deposits in current accounts and on treasury bank accounts used to employ liquidity.

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12. Income tax

This item can be analyzed as follows:

Description	31/12/2015	31/12/2014
IRES for the year	(1,776)	(2,010)
IRAP for the year	1,000	2,013
Deferred tax income and expenses	(264)	970
Total current and deferred income tax	**(1,040)**	**973**

In accordance with relevant IFRS, the deferred tax income of a number of Cairo Communication Group companies relates mainly to the accrual of provision pertaining to the year, but having deferred tax deductibility (allowance for impairment and provisions for risks and charges).

On 30 December 2015, the 2016 Stability Law was published in the State Gazette; the Law changes the IRES corporate income tax rate, effective from financial years following the year ending on 31 December 2016. The IRES tax rate will be reduced from the current 27.5% to 24%; as a result of the reduction, all of the items under deferred tax assets in the 2015 financial statements arising after the 2016 financial statements were valuated using the new rate. The adjustment had a negative impact of Euro 273 thousand on the income statement.

The tax charge for the period considers the benefit arising from the tax loss of La7 S.p.A. (former La7 S.r.l.).

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

	31/12/2015	31/12/2014
Pre-tax profit	**10,032**	**24,789**
Theoretical income tax charge (27.5%)	**2,759**	**6,817**
Tax effects from the consolidation and the purchase price allocation of La7	(2,736)	(6,169)
Tax effects of other permanent differences	(2,063)	(1,688)
IRAP	1,000	2,013
Current and deferred income tax for the year	**(1,040)**	**973**

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

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13. Profit / (loss) from discontinued operations

This includes the result of Diellesei S.r.l. in liquidation, which can be analyzed as follows:

Description	31/12/2015	31/12/2014
Other revenue and income	-	-
Cost of services	(1)	(1)
Amortization, depreciation, provisions and impairment losses	-	-
EBIT	**(1)**	**(1)**
Net financial income / (expense)	-	-
Pre-tax profit	**(1)**	**(1)**
Income tax	-	-
Loss from discontinued operations	**(1)**	**(1)**

With regard to the financial situation of the subsidiary in liquidation, cash absorbed by the liquidation proceedings of Diellesei in 2015 amounted to Euro 67 thousand (Euro 2 thousand in 2014).

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14. Segment reporting

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

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

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

- **advertising**, the segment managed by Cairo Communication and Cairo Pubblicità, which work together in advertising sales in print media for Cairo Editore and Editoriale Genesis (“Prima Comunicazione”), on TV for La7 and La7d, and Turner Broadcasting (Cartoon Network, Boomerang, CNN), on the Internet and for the sale of stadium advertising spaces at the “Olimpico” football pitch in Turin for Torino FC;
- **TV publishing (La7)**, as mentioned earlier, since 1 May 2013 following the acquisition of La7 S.r.l., the Group has operated as a TV publisher of La7 and La7d broadcasters respectively on channel 7 and channel 29 on the digital terrestrial platform;
- **network operator (Cairo Network)** in 2014, the subsidiary Cairo Network took part in the tender procedure opened by the Ministry of Economic Development for the assignment of rights to use TV frequencies for digital terrestrial broadcasting systems, submitting its binding bid and winning the rights to use a lot of frequencies (“mux") for a period of 20 years. With the acquisition and realization of the mux, the Cairo Communication Group will start operations as a network operator.
- **Il Trovatore,** which manages its own search engine and provides technological services mainly within the Group.

No combinations were made for the definition of reportable business segments

2015 (€ thousands)	Magazine Publishing	Adver tising	TV publishing (La7)	Trovatore	Network operator (Cairo Network)	Intra-group and unallocated	Total
Gross operating revenue	95,037	168,588	102,098	893	-	(116,013)	250,603
Advertising agency discounts	-	(24,021)	-	-	-	-	(24,021)
Net operating revenue	**95,037**	**144,567**	**102,098**	**893**	**-**	**(116,013)**	**226,582**
Change in inventory	33	-	-	-	-	-	33
Other income	1,803	1,151	6,349	2	98	-	9,403
Total revenue	**96,873**	**145,718**	**108,447**	**895**	**98**	**(116,013)**	**236,018**
Production cost	(62,640)	(136,368)	(73,684)	(684)	(143)	116,013	(157,505)
Personnel expense	(19,615)	(8,015)	(33,191)	(77)	(57)	-	(60,955)
Gross operating profit (EBITDA)	**14,618**	**1,335**	**1,572**	**134**	**(102)**	**-**	**17,557**
Amortization, depreciation, provisions and impairment losses	(1,139)	(632)	(6,445)	-	(1)	-	(8,217)
EBIT	**13,479**	**703**	**(4,873)**	**134**	**(103)**	**-**	**9,340**
Income (loss) on investments	-	-	-	-	-	-	-
Net financial income	(16)	73	631	4	-	-	692
Pre-tax profit	**13,463**	**776**	**(4,242)**	**138**	**(103)**	**-**	**10,032**
Income tax	(4,658)	(726)	6,447	(51)	28	-	1,040
Profit from continuing operations attributable to the owners of the parent	**8,805**	**50**	**2,205**	**87**	**(75)**	**-**	**11,072**
Profit / (loss) from discontinued operations	-	-	-	-	-	(1)	(1)
Profit	**8,805**	**50**	**2,205**	**87**	**(75)**	**(1)**	**11,071**
Non-controlling interests	-	-	-	18	-	-	18

2014 (€ thousands)	Magazine Publishing	Adver tising	TV publishing (La7)	Trovatore	Network operator (Cairo Network)	Intra-group and unallocated	Total
Gross operating revenue	96,708	181,332	110,913	834	-	(123,773)	266,014
Advertising agency discounts	-	(25,748)	-		-	-	(25,748)
Net operating revenue	**96,708**	**155,584**	**110,913**	**834**	**-**	**(123,773)**	**240,266**
Change in inventory	(28)	-	-		-	-	(28)
Other income	1,321	919	9,323	62	2	-	11,627
Total revenue	**98,001**	**156,503**	**120,236**	**896**	**2**	**(123,773)**	**251,865**
Production cost	(65,098)	(144,026)	(77,016)	(673)	(8)	123,773	(163,048)
Personnel expense	(19,120)	(7,251)	(34,221)	(42)	-	-	(60,634)
Gross operating profit (EBITDA)	**13,783**	**5,226**	**8,999**	**181**	**(6)**	**-**	**28,183**
Amortization, depreciation, provisions and impairment losses	(1,261)	(1,181)	(2,778)	-	(1)	-	(5,221)
EBIT	**12,522**	**4,045**	**6,221**	**181**	**(7)**	**-**	**22,962**
Income / (loss) on investments	-	(2)	-	-	-	-	(2)
Net financial income	17	390	1,423	(1)	-	-	1,829
Pre-tax profit	**12,539**	**4,433**	**7,644**	**180**	**(7)**	**-**	**24,789**
Income tax	(4,502)	(1,795)	5,385	(61)	-	-	(973)
Profit from continuing operations attributable to the owners of the parent	**8,037**	**2,638**	**13,029**	**119**	**(7)**	**-**	**23,816**
Profit / (loss) from discontinued operations	-	-	-	-	-	(1)	(1)
Profit	**8,037**	**2,638**	**13,029**	**119**	**(7)**	**(1)**	**23,815**
Non-controlling interests	-	-	-	24	-	-	24

A client in the publishing segment (the publications distributor) accounts for approximately 74% of net consolidated operating revenue.

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

Segment statement of financial position figures, specifically, total assets for each reportable segment, do not represent amounts regularly provided to the chief operating decision-maker. This detail, formerly prescribed also without such condition, is not provided in these explanatory notes in accordance with the amendment of IFRS 8 – *Operating segments*, effective as from 1 January 2010.

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15. Earnings per share

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

Description	**31/12/2015**	**31/12/2014**
Euro/000:		
Profit from continuing operations	11,072	23,816
Profit / (loss) from discontinued operations	(1)	(1)
Profit for the year	**11,071**	**23,815**
Weighted average number of shares outstanding	78,343,400	78,343,400
Weighted average number of treasury shares	(779)	(779)
Weighted average number of shares to calculate earnings per share	**78,342,621**	**78,342,621**
€ thousands		
Earnings per share attributable to continuing operations	0.141	0.304
Earnings / (loss) per share attributable to discontinued operations	(0.000)	(0.000)
Net earnings per share	0.141	0.304

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

NOTES TO THE STATEMENT OF FINANCIAL POSITION

Asset and liabilities by category are analyzed in the following notes.

16. Property, plant and equipment

The movements in PPE can be analyzed as follows:

Description	Property	Plant and equipment	Other assets	Assets under development	Total
Carrying amount at 31/12/2014	**1,281**	**628**	**1,160**	**-**	**3,069**
Additions	-	170	342	-	512
Amortization/Depreciation	(42)	(149)	(311)	-	(502)
Carrying amount at 31/12/2015	**1,240**	**649**	**1,191**	**-**	**3,080**

In 2015, due to the impairment of tangible assets made in 2013 in the allocation of the purchase price of the investment in La7 S.r.l. described in Note 8, lower depreciation was recognized on "property, plant and equipment" in the amount of Euro 2,210 thousand (Euro 2,794 thousand in 2014).

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17. Intangible assets

The movements in intangible assets can be analyzed as follows:

Description	Television rights	Concessions, licenses and trademarks	Goodwill	Publication titles	Assets under development	Total
Carrying amount at 31/12/2014	**8,529**	**1,128**	**7,198**	**1,012**	**39,004**	**56,871**
Additions	11,455	735	-	-	(1,427)	10,763
Amortization/Depreciation	(5,658)	(794)	-	(264)	-	(6,716)
Carrying amount at 31/12/2015	**14,326**	**1,069**	**7,198**	**748**	**37,577**	**60,918**

In 2015, due to the impairment of intangible assets made in 2013 in the allocation of the purchase price of the investment in La7 S.r.l. described in Note 8, lower depreciation was recognized on “intangible assets" in the amount of Euro 7,004 thousand (Euro 15,442 thousand in 2014).

Television rights

This item includes the investments made by La7 S.p.A. in registration rights (with a duration of over 12 months) for the broadcasting of films, series and soaps.

Concessions, licenses and trademarks

At 31 December 2015, this item mainly regarded software.

Goodwill

This item refers to the excess of the purchase price over the percentage attributable to the Group of the fair value of assets, liabilities and identifiable contingent liabilities of a number of subsidiaries at their date of acquisition, net of related accumulated amortization at 30 September 2004, as the Group chose to adopt the exemption provided under IFRS 1 not to apply IFRS 3 retrospectively to transactions which took place prior to the date of transition to IFRS.

The movements in this item for each of the cash generating units (CGU), which the Group has identified for the business segments in which it operates, are described below:

Cash Generating Unit	**31/12/14**	**Additions**	**Disposals**	**Impairment losses**	**31/12/15**
Publishing	4,746	-	-	-	4,746
Advertising	2,289	-	-	-	2,289
Trovatore	163	-	-	-	163
Total	**7,198**	**-**	**-**	**-**	**7,198**

At 31 December 2015, goodwill underwent impairment testing as required by IAS 36. This test, carried out at least annually, was performed at the level of the cash generating units (CGUs) to which goodwill is allocated. The realizable value of goodwill was determined by estimating value in use calculated as the present value of the prospective cash flows from operations derived from the most recent company budgets and three-year plans.

The main assumptions made for the calculation of value in use are summarized as follows:

Cash Generating Unit	**Growth rate of terminal values: 2015**	**Discount rate 2015**	**Growth rate of terminal values: 2014**	**Discount rate 2014**
Publishing	1%	10.5%	1%	10.5%
Advertising	1%	10.5%	1%	10.5%
Trovatore	1%	10.5%	1%	10.5%

No evidence arose to indicate that the activities carried out by the CGUs subject to impairment testing could have suffered an impairment loss. Furthermore, the Group has developed a sensitivity analysis of the realizable values allocated to the three CGUs using the discount rate as the key parameter, the results show that the recoverability of goodwill is not particularly sensitive to changes in this parameter.

No significant evidence of potential impairment arose from this analysis.

The estimates and the budget figures used for the determination of the recoverable amount of goodwill have been determined by Group management on the basis of both past experience and on the expectations of the development in the markets in which the Group operates, also taking account of the specific general economic environment. Management believes that the use of these estimates will have no significant impact in determining the carrying amount of goodwill, especially in the publishing and advertising sector, of which is already covered by the expected cash flows of 2016.

Titles

Titles include the following:

Description	**31/12/14**	**Additions**	**Amortization**	**31/12/15**
Bell'Italia	648	-	(170)	478
Bell'Europa	364	-	(94)	270
Total	**1,012**	**-**	**(264)**	**748**

The time period deemed appropriate for the valuation of the remaining useful life of these titles has been set at 20 years. The carrying amount of "Bell'Italia" and "Bell'Europa" underwent impairment testing to evaluate any impairment loss on realizable value, as defined by their value in use being cash flows based on the expected results of the titles. No evidence of impairment was identified. The main assumptions used in the calculation of value in use are the same as illustrated in the previous paragraph.

Assets under development

"Assets under development", amounting to Euro 37.6 million, refers primarily to the rights to use TV frequencies for digital terrestrial broadcasting systems (Euro 31.6 million, in addition to ancillary charges of Euro 3.4 million, which include financial charges of Euro 0.7 million), acquired in 2014 by the Group company Cairo Network S.r.l. These rights - for a period of 20 years – refer to the 2-SFN multiplex on channels 25 and 59 ("mux").

The amortization of the rights to use the frequencies will start once the mux will be ready for use. The network plan is expected to be completed in 2016. Accordingly, on 31 December 2015, the abovementioned rights underwent impairment testing as required by IAS 36 for intangible assets not subject to amortization. The results did not show any cases of potential impairment.

“Assets under development” also includes TV rights for Euro 2.6 million to be exploited in future years.

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18. Investments and non-current assets

The movement in this item can be analyzed as follows:

Description (€ thousands)	**Carrying amount at 31/12/2014**	**Change in scope of consolidation**	**Write-ups**	**Impairment losses**	**Carrying amount at 31/12/2015**
		-	-	-	
Auditel S.r.l.	46	-	-	-	46
Other	16	-	-	-	16
Total other investments	**62**	**-**	**-**	-	**62**

Other non-current financial assets amounted to Euro 1,640 thousand at 31 December 2015 (Euro 1,113 thousand at 31 December 2014), Euro 1,344 thousand of which refer to the fair value of financial instruments to hedge exchange risks (forward currency purchases coinciding with schedules of contractual payments due) used by La7 S.p.A. (former La7 S.r.l.) to purchase TV rights from film companies.

The residual amount of other financial assets of Euro 296 thousand (Euro 370 thousand at 31 December 2014) refers mainly to loans to La7 S.p.A. (former La7 S.r.l.) employees.

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19. Deferred tax assets

These refer to the recognition, in the financial statements at 31 December 2015, of deferred tax assets on the temporary differences between the carrying amounts of recognized assets and liabilities and their tax amounts, as follows.

	31/12/2015		31/12/2014	
	Amount of temporary differences	Tax effect	Amount of temporary differences	Tax effect
Deferred tax assets				
Taxed allowance for impairment	7,449	1,870	6,893	1,896
Tax losses carried forward			-	-
Taxed and returned provisions for risk and charges	2,035	566	996	310
Taxed provision for inventory write-down	518	146	518	163
Directors' fees	586	159	633	174
Consolidation entries for write-off of intra-group trade relations	1,569	493	1,830	575
Different accounting treatment of post-employment benefits	2,408	592	2,276	626
Other temporary differences	1,373	402	882	284
Total deferred tax assets	**15,938**	**4,228**	**14,028**	**4,028**
Deferred tax liabilities				
Different accounting treatment of land depreciation	(143)	(42)	(143)	(45)
Total deferred tax liabilities	**(143)**	**(42)**	**(143)**	**(45)**
Net deferred tax assets	**15,795**	**4,186**	**13,885**	**3,983**

On 30 December 2015, the 2016 Stability Law was published in the State Gazette; the Law changes the IRES corporate income tax rate, effective from financial years following the year ending on 31 December 2016. The IRES tax rate will be reduced from the current 27.5% to 24%; as a result of the reduction, all of the items under deferred tax assets in the 2015 financial statements arising after the 2016 financial statements were valuated using the new rate. The adjustment had a negative impact of Euro 273 thousand on the income statement.

Deferred tax assets are recognized to the extent they are considered recoverable depending on the presence of future taxable income in which temporary differences will be reversed. Management periodically reviews the estimates underlying the recoverability of these amounts.

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20. Inventories

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

Description	31/12/15	31/12/14	Change
Raw materials, consumables and supplies	2,516	2,873	(357)
Work-in-progress and bordereau	189	171	18
Finished products and books	436	252	184
Total	**3,141**	**3,296**	**(155)**

Inventories are stated net of the provision for inventory write-down of Euro 659 thousand (Euro 1,032 thousand at 31 December 2014).

- Raw materials

  Raw materials relate mainly to paper and are recognized at the lower of purchase or production cost and their estimated realizable value, based on market performance at year end.

- Work-in-progress

  Work-in-progress comprises purchase or production costs incurred for publications to be invoiced by Cairo Editore S.p.A. This item also includes bordereau for services yet to be used, available for future publications, and work in progress on forthcoming editions.

- Finished products

  The item includes:

- Euro 136 thousand (Euro 121 thousand at 31 December 2014) related to inventories of books of Cairo Publishing S.r.l., measured at the lower of cost and estimated realizable value;
- Euro 300 thousand (Euro 131 thousand at 31 December 2014) related to the inventories of La7 S.r.l. of TV programmes produced and awaiting to be aired at 31 December 2015, and to rights on films, soaps, cartoons and documentaries, acquired for a period of less than 12 months, whose available right has not exhausted and for which airing time during the next financial year is available.

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21. Trade receivables

Trade receivables can be analyzed as follows

Description	31/12/15	31/12/14	Change
Trade receivables	87,735	89,926	(2,191)
Allowance for impairment	(9,196)	(9,969)	773
Total trade receivables	**78,539**	**79,957**	**(1,418)**

Trade receivables are stated net of the allowance for impairment that has been determined taking account of both specific collection risks and a general risk of non-collectability based on the ordinary trend of company operations. This allowance also takes into account the allocation to the Group's media clients, in particular third-party clients, of a percentage of losses on receivables, equal to the percentage of revenue allocated, pursuant to advertising space sales contracts signed between the two parties.

The ageing of trade receivables by due date at 31 December 2015 versus 31 December 2014 is as follows:

31 December 2015	Current	Past due between 30 and 60 days	Past due between 61 and 90 days	Past due between 91 and 180 days	Past due over 180 days	Total
Trade receivables	74,784	1,640	348	1,680	9,083	87,735
Allowance for impairment	(2,165)	(374)	(558)	(400)	(5,899)	(9,196)
Trade receivables	**72,619**	**1,266**	**190**	**1,280**	**3,184**	**78,539**

31 December 2014	Current	Past due between 30 and 60 days	Past due between 61 and 90 days	Past due between 91 and 180 days	Past due over 180 days	Total
Trade receivables	75,369	1,845	674	1,697	10,341	89,926
Allowance for impairment	(2,300)	(254)	(219)	(255)	(6,942)	(9,969)
Trade receivables	**73,069**	**1,591**	**455**	**1,442**	**3,399**	**79,957**

In terms of concentration, the top 10 customers represent approximately 11% (12% in 2014) of total advertising sales, while the top 100 customers represent approximately 50% (54% in 2014).

The publishing segment presents a limited exposure to credit risk as publishing revenue is substantially generated by one sole party – the Group - while for distribution revenue, the distribution contract, which accounts for about 74% of net consolidated operating revenue, provides for an advance payment equal to a significant percentage of the estimated sales of each magazine.

In 2015, the allowance for impairment increased with accruals of Euro 837 thousand from provisions for the year. Use over the period, amounting to Euro 1,610 thousand, resulted in a net decrease of Euro 773 thousand.

Trade receivables include due from Torino Football Club S.p.A.: Euro 66 thousand to Cairo Pubblicità for contractual relations as described in Note 34, and Euro 30 thousand to Cairo Communication for administrative services provided and for various recharged expenses.

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22. Other receivables and other current assets

The item can be analyzed as follows:

Description	31/12/15	31/12/14	Change
IRAP credit	951	1,267	(316)
Tax receivables	813	1,496	(683)
VAT credit	1,127	1,528	(401)
Total tax assets	**2,891**	**4,291**	**(1,400)**
Prepayments and accrued income	1,506	1,364	142
Advances to suppliers	305	2,054	(1,749)
Other receivables	595	721	(126)
Total other receivables and other current assets	**5,297**	**8,430**	**(3,133)**

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23. Cash and cash equivalents

The item can be analyzed as follows:

Description	31/12/15	31/12/14	Change
Bank accounts	125,745	149,042	(23,297)
Cash	31	19	12
Total cash and cash equivalents	**125,776**	**149,061**	**(23,285)**

The consolidated net financial position at 31 December 2015, versus the situation at 31 December 2014, can be summarized as follows:

Description	31/12/15	31/12/14	Change
Cash and cash equivalents	125,776	149,061	(23,285)
Bank loans	(20,000)	(25,000)	5,000
Total cash and cash equivalents	**105,776**	**124,061**	**(18,285)**

As shown in the consolidated cash flow statement, the change in the net financial position versus 31 December 2014 is mainly due to the distribution of dividends approved by the Shareholders' Meeting on 28 April 2015 (0.27 Euro per share, for a total of Euro 21.2 million), and to investments in tangible and intangible assets, mainly in television rights.

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

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24. Equity

At 31 December 2015, consolidated equity was Euro 116,250 thousand, including profit for the year.

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

At their Meeting on 28 April 2015, the shareholders approved the distribution of a dividend of 0.27 Euro per share, inclusive of tax. The dividend, amounting to Euro 21.2 million, was distributed with detachment date on 11 May 2015 (payable on 13 May 2015).

The share capital at 31 December 2015 was Euro 4,074 thousand, subscribed and fully paid up, comprising n. 78,343,400 ordinary shares to which no nominal amount is attributed.

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

The reconciliation between the number of shares outstanding at 31 December 2015 and those at 31 December 2014 is as follows:

	31/12/2014	**Purchase of treasury shares**	**Sale of treasury shares**	**31/12/2015**
Ordinary shares issued	78,343,400	-	-	78,343,400
Less: treasury shares	(779)	-	-	(779)
Ordinary shares outstanding	**78,342,621**	**-**	**-**	**78,342,621**

In 2015, as part of the share buy-back plans, no treasury shares were sold or purchased. At 31 December 2015, 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.

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25. Post-employment benefits

This item reflects the accruals made for all employees at the reporting date on the basis of the projected unit credit method, using actuarial valuations. The main assumptions used in this valuation are as follows:

COMPANY	Cairo Communication	Cairo Pubblicità	Cairo Editore	LA7	
TYPE OF VALUATION	POST-EMP. BENEFITS	POST-EMP. BENEFITS	POST-EMP. BENEFITS	POST-EMP. BENEFITS	Suppl. indemnity
DATE OF VALUATION	31/12/2015	31/12/2015	31/12/2015	31/12/2015	31/12/2015
Mortality table	Sim/f 1998	Sim/f 1998	Sim/f 1998	RG48	Sim/f 1998
Reduction of mortality table	20.00%	20.00%	20.00%	0.00%	20.00%
Advance request rate EXECUTIVE	1.00%	0.50%	0.50%	3.00%	-
Advance request rate MANAGER	2.00%	0.50%	2.00%	3.00%	-
Advance request rate EMPLOYEE	2.00%	0.50%	2.00%	3.00%	-
Advance request rate JOURNALIST	not present	not present	2.00%	3.00%	
Salary increase rate EXECUTIVE	5.00%	2.50%	0.00%	1.81%	-
Salary increase rate MANAGER	4.00%	2.50%	0.00%	1.81%	-
Salary increase rate EMPLOYEE	4.00%	2.50%	0.00%	1.81%	-
Salary increase rate JOURNALIST	not present	not present	0.00%	1.81%	
Fee increase rate AGENT	-	-	-	-	4%
Future inflation rate	1.81%	1.81%	1.81%	1.81%	2.00%
Discount rate	1.81%	1.81%	1.81%	1.81%	4.00%
Resignation rate EXECUTIVE	2.00%	0.50%	0.00%	x<40 4%; 41<x<50 2.5%; above 0	-
Resignation rate MANAGER	2.00%	0.50%	5.00%	x<40 4%; 41<x<50 2.5%; above 0	-
Resignation rate EMPLOYEE	7.00%	2.50%	6.50%	x<40 4%; 41<x<50 2.5%; above 0	-
Resignation rate JOURNALIST	not present	not present	5.00%	x<40 4%; 41<x<50 2.5%; above 0	
Resignation rate AGENT	-	-	-	-	15%

The composition and movements of this item is broken down as follows:

	31/12/2015	31/12/2014
Opening balance	**13,398**	**11,832**
Provisions	200	116
Interest expense	196	352
Profit (loss) from actuarial valuations	38	1,376
Utilization/other movements	(517)	(278)
Closing balance	**13,315**	**13,398**

The average headcount over the two years can be analyzed as follows:

Description	31/12/2015	31/12/2014	Average
Senior managers	30	24	27
Managers	80	83	81
Employees	414	396	405
Journalists and freelance	249	234	242
Grand total	**773**	**737**	**755**

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26. Non-current financial liabilities

The item includes the non-current portion (Euro 15 million) of the bank loan initially of Euro 25 million, granted by Unicredit S.p.A. in July 2014 to Cairo Network for the purchase of rights to use TV frequencies, as explained in the Directors' Report.

The loan:

- expires on 31 December 2019. Repayment is made in 20 quarterly instalments of Euro 1,250 thousand, starting from 31 March 2015; early repayment is allowed;
- is secured by a guarantee issued by the parent Cairo Communication;
- calls for the payment of an interest rate equal to the 3-month Euribor plus 0.95 basis points (renegotiated as from July 2015) and certain constraints (negative pledges) and commitments (covenants), typical of these transactions.

Specifically:

- under the financial covenants, to be checked annually, at Group level (consolidated financial statements), the debt cover (the net debt/EBITDA ratio) should be less than or equal to 1.75 and the leverage (the net debt/equity ratio) less than or equal to 1;
- the commitment covenants on Cairo Network mainly include, until full repayment of the loan and subject to the prior consent of the bank, the commitment (i) not to distribute nor approve the distribution of dividends and/or reserves, (ii) not to take on new financial debt (excluding loans received by the shareholders and the new debt related to the sale of receivables for working capital needs or the issue of new insurance and bank sureties to cover ordinary needs (iii) not to grant guarantees to third parties in the interest of Group companies or loans to Group companies, (iv) not to dispose of company assets and/or investments, (v) not to implement extraordinary corporate transactions, (vi) not to create or allow the creation of liens, pledges or mortgages on own assets.

Breach of the commitment and/or financial covenants may result in termination of the loan agreement, pursuant to Article 1456 of the Italian Civil Code. Early repayment is provided for in the event of a change of control of Cairo Network. At 31 December 2015, the covenants had been met.

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27. Provisions for risks and charges

The provisions for risk and charges include:

Description	31/12/2014	Increases	Utilizations	31/12/2015
Pension and similar provision	1,325	12	(19)	1,318
Provision for publishing returns	391	420	(391)	420
Provision for liquidation	64	-	(1)	63
Provisions for future risks and charges under the purchase price allocation of La7 S.r.l.	18,724	-	(818)	17,906
Provision for other risks and charges	9,838	150	(1,037)	8,951
Grand total	**30,342**	**582**	**(2,266)**	**28,658**

The item “Provision for other risks and charges", amounting to Euro 8,951 thousand, mainly includes provisions for risks and charges of La7 for pending litigation with social security institutions, leased staff and employees. The item also includes funds for future expenses set aside to cover the risk arising from claims for damages originated during the production and airing of TV programmes.

The provision for “pension and similar provision” was accrued by Cairo Pubblicità S.p.A. for the agents’ termination benefits as prescribed by law and contracts, subject to actuarial valuations based on the assumptions illustrated in Note 25.

The “provision for publishing returns” relates to the operations of the subsidiary Cairo Publishing S.r.l.; the relating net provisions are deducted from revenue from book sales.

The provision for "liquidation charges" refers to provisions made to cover the liquidation charges of Diellesei S.r.l. in liquidation, the relevant provisions are recognized in profit/ (loss) from discontinued operations.

Mention should be made that in 2013, in the purchase price allocation of La7 S.r.l., a negative fair value had been given, setting aside appropriate “provisions for future risks and charges recognized in the purchase price allocation of La7 S.r.l.”, to:

a) a number of contracts whose unavoidable costs of meeting contractual obligations exceed the economic benefits expected to be received;
b) specific risk situations related to (i) existing or performed contracts and (ii) pending litigation.

28. Current loans and borrowings

The item includes the current portion (Euro 5 million of the bank loan of initial Euro 25 million, granted by Unicredit S.p.A. in July 2014 to Cairo Network, as explained in Note 26 above.

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29. Trade payables

Trade payables amounted to Euro 82,382 thousand, decreasing by Euro 5,502 thousand versus 31 December 2014, and refer entirely to the current year.

Trade payables include Euro 1,231 thousand due to the associate Torino Football Club S.p.A. for amounts accrued under the advertising concession contract signed with Cairo Pubblicità S.p.A.

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30. Receivables from and payables to the Parent

Receivables from and payables to the parent of Euro 3,167 thousand and Euro 818 thousand, respectively, refer mainly to the parent UT Communications S.p.A. and arise from the national tax consolidation scheme, under art. 117/129 of the TUIR (Consolidated income tax act), which Cairo Communication S.p.A. and its subsidiaries Cairo Editore S.p.A., Cairo Pubblicità S.p.A., Diellesei S.r.l. in liquidation, Cairo Publishing S.r.l., La7 S.p.A. and Cairo Network S.r.l. have agreed to participate in.

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31. Tax liabilities

They include:

Description	**31/12/2015**	**31/12/2014**	**Change**
Withholding taxes on employees	2,140	2,107	33
Withholding taxes on contract workers	472	654	(182)
VAT payables	-	1,111	(1,111)
IRAP payables	741	1,564	(823)
Other	207	51	156
Total tax liabilities	**3,560**	**5,487**	**(1,927)**

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32. Other current liabilities

The item can be analyzed as follows:

Description	**31/12/2015**	**31/12/2014**	**Change**
Social security charges payables	4,643	4,826	(183)
Advances on subscriptions	1,724	1,777	(53)
Due to personnel (holidays, bonuses, etc.)	10,901	11,510	(391)
Accrued expenses and deferred income	323	768	(445)
Other liabilities	3,231	4,885	(1,654)
Total other current liabilities	**20,822**	**23,766**	**(2,944)**

Social security charges payables relate entirely to the current year. The Group normally pays social security charges and withholding taxes in accordance with legally defined due dates.
Advances relate to the portion of subscription payments received from customers to whom magazines have not yet been issued, as well as prepayments for specially commissioned future editions.

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33. Commitments and risks

The agreements reached in the purchase of the entire share capital of La7 S.r.l. also included a multi-year agreement between La7 and Telecom Italia Media Broadcasting S.r.l. (TIMB) for the supply of transmission capacity that provides, among other things, the issue by Cairo Communication of a parent company guarantee to cover the payment obligations undertaken by La7, for a maximum amount of Euro 6,558 thousand (including VAT) per year.

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As explained in the notes to the consolidated financial statements at 31 December 2014, the contract signed on 6 March 2013 with Telecom Italia Media for the acquisition of the entire share capital of La7 provided for:

- the buyer’s commitment, for a period of 24 months (lock-up) from the date of finalization of the acquisition, not to sell, assign, transfer, dispose of in any way, in whole or in part, the investment in La7, or the business unit owning La7;
- Cairo Communication’s commitment, for a period of 24 months from the date of finalization of the acquisition, to use the financial resources arising from the contribution received from Telecom Italia Media in the exclusive interest and for the restructuring of La7, and the related prohibition to engage in certain transactions specified in the contract, including of an extraordinary kind, aimed at depriving La7 of the resources from the contribution to the benefit of third parties or related parties, or to make new investments.

Both commitments expired on 30 April 2015.

In 2014, the subsidiary Cairo Network took part in the tender procedure opened by the Ministry of Economic Development for the assignment of rights to use TV frequencies for digital terrestrial broadcasting systems, submitting its binding bid and winning the rights to use a lot of frequencies (“mux") for a period of 20 years. In January 2015, Cairo Network and EI Towers S.p.A. (“EIT”) therefore entered into the agreements for the realization and subsequent long-term technical management in full service mode (hospitality, service and maintenance, use of broadcasting infrastructure, etc.) of the mux. The agreements 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 an operational phase of the mux lasting 17 years (from 2018 to 2034);
- the right to free withdrawal of Cairo Network starting from 1 January 2025;
- guaranteed coverage 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 full performance (starting from 2018), amounting to Euro 16.3 million per year.

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

With regard to the Automatic Numbering Plan, the numbers currently in use (7 for La7 and 29 for La7d) are those assigned by the Ministry of Economic Development in 2010, under AGCOM resolution 366/2010/CONS. The Resolution had been challenged by Telenorba and other local broadcasters, with partial annulment specifically regarding the assignment of numbers 7-8 and 9 by the Council of State through Ruling 4660/12.

On 21 March 2013, the Communications Authority (AGCOM) unanimously approved the New Automatic Numbering Plan for digital terrestrial television (LCN) by Decision 237/13/CONS. The decision confirmed, for national traditional broadcasters, the assignment of numbers 0-9 of the first block of LCN numbering (see p. 39-40 and 44 of AGCOM Decision no. 237/13/CONS).

Deeming that the New Plan evaded the Council of State's ruling (given that it confirmed assignment to the national traditional broadcasters of numbers 0-9 in the first block of LCN numbering), Telenorba filed an appeal for compliance with ruling n. 4660/12. The appeal was upheld by the Council of State (ruling no. 6021 of 16 December 2013), which declared the New Numbering Plan void (pursuant to Resolution 237/2013) for numbers from 8 to 9, and appointed a special commissioner tasked with verifying the correct assignment of numbers from 8 to 9 within 90 days from the beginning of the proceedings, which started on 24 February 2014. However, since the partial annulment of the previous Plan initially included number 7, on initiation of the procedure, the special commissioner - inappropriately in the opinion of La7 - also referred to number 7, which instead, under the Ruling, is not subject to verification by the Commissioner. AGCOM has in the meantime re-extended the previous Plan (based on current assignments), as also suggested in the State Council's ruling, in order to avoid a regulatory void.

In execution of ruling no. 6021, the Special Commissioner launched a public consultation on an outline provision named "Automatic numbering plan of digital terrestrial free-to-air and pay TV channels, procedures for allocating numbers to providers of audiovisual services authorized to broadcast audiovisual content using digital terrestrial technology and relating conditions of use." Telenorba, All Music and AGCOM have challenged the acts adopted by the Commissioner, lodging enforcement reviews and claims before the State Council (the court of compliance), arguing that the Commissioner had exceeded the requirements of sentence no. 6021 of 2013.

Following orders no. 5041, 5127 and 5859 of 2014 and n. 27 of 2015, under which the Council of State has given the Commissioner certain regulations to discharge the task, the Commissioner adopted a new outline provision (no. 7 of 2015), accompanied by an explanatory report.

With such orders, deeming his task completed, the Commissioner stated that Lcn numbers 7, 8 and 9 established by AGCOM in the first plan of 2010 (Resolution no. 366/2010/CONS) should be confirmed. Specifically, the Commissioner determined that: a) in light of user preferences and habits at the time of the switch-off, numbers 7, 8 and 9 were to be assigned to a national broadcaster; b) in March 2010, seven national private commercial analogue broadcasters and three public channels were in operation (including La7); c) 9 broadcasters had a generalist schedule (including La7).

Telenorba lodged a complaint with the Council of State requesting the annulment of or a declaration of invalidity and/or ineffectiveness of the Special Commissioner’s Resolution No. 7 of 2015, and relating annexes (and of any other resolutions adopted by the Commissioner to the extent that Telenorba is concerned). All Music also lodged a complaint against the resolution and the report recently adopted by the Commissioner.

Through sentence no. 432 of 2016, the Council of State ruled for the fairness of the Commissioner's provision, specifically on the point where all three positions - 7, 8, 9 - were to be assigned to national, not local, broadcasters, and confirmed that Telenorba, as a local broadcaster, had no entitlement to be assigned any such positions.

Through concurrent ruling no. 1836 of 2016, the joint session of the Court of Cassation overturned ruling no. 6021 of 2013 of the Council of State (which, as explained, had annulled AGCOM’s 2013 Plan and had appointed the Commissioner), owing to violation of the outer limits of administrative jurisdiction.

To date, the effects of the Court of Cassation’s ruling on AGCOM activities (and the Commissioner’s) are difficult to predict, especially with regard to the effectiveness of AGCOM resolutions no. 366/2010/ Cons and no. 237/13/Cons.

In any case, in the opinion of La7 and its legal advisers, further assessments on number 7 are unlikely to be made, nor will the allocation of this number to La7 be revoked."

As the result of a VAT audit performed on Cairo Communication S.p.A., in its report, the Guardia di Finanza (the Italian Tax Police) identified some findings for 2002 and subsequent years (2003, 2004, 2005 and 2006) relating to the application if any of VAT on dealing rights charged to media centres, which were subsequently included in the final audit reports, which the Company has challenged.

For the periods 2002, 2003, 2004 and 2005, the Provincial Tax Commission of Milan has ruled in favour of the Company's appeals. The Agenzia delle Entrate (Italian Tax Authorities) has filed an appeal with the Regional Tax Commission of Milan against these decisions. In April 2010, the Regional Tax Commission of Milan ruled in favour of the Agency's appeal regarding 2002, and in October 2011 also regarding the years 2003, 2004 and 2005, on questionable grounds. Cairo Communication has already appealed to the Court of Cassation against the judgment regarding 2002, for which the tax claim amounts to Euro 41 thousand in addition to penalties of Euro 51 thousand, and the judgment regarding the subsequent years 2003, 2004 and 2005, for which the tax claim totals Euro 247 thousand, in addition to penalties of Euro 272 thousand and interest.

The Company has filed an appeal for 2006; the discussion hearing was held on 23 May 2014 and, following the ruling filed on 31 March 2015, the Provincial Tax Commission of Milan acknowledged the Company's appeal. The Agency has filed an appeal with the Regional Tax Commission of Milan (for 2006, the tax claim is Euro 63 thousand, in addition to penalties of Euro 79 thousand and interest).

In relation to the tax claim contained in these reports, based also on the advice of its tax consultants, the Directors believe there are fundamental reasons and rights to oppose the relevant findings.

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

Immobiledit S.r.l., the subsidiary merged into Cairo Editore in 2009, is party to a lawsuit regarding a property purchase. In 2004, the Court of Milan, in the first instance, had rejected the adverse party's claims, ordering the adverse party to pay damages, to settle in separate proceedings, and to repay legal expenses. The Court of Appeal has partly reversed the ruling of first instance, ordering Immobiledit to pay for the expenses of first and second instance, rejecting the adverse party's claim for damages, which has appealed to the Court of Cassation against the rejection. Following Ruling no. 25351/14, the Court of Cassation, rejecting all the other grounds of the main appeal of Italiana Assicurazioni, granted the first ground of appeal concerning compensation for damage suffered by Italiana Assicurazioni for the fittingout of the property covered by the preliminary contract; the Court referred the case to the Court of Appeal of Milan, in a different formation, which will be called to review the issue of compensation for damage only on the point above; the request for compensation by Italiana Assicurazioni regarding the plea granted by the Court of Cassation amounts to approximately Euro 319 thousand, plus interest and monetary revaluation. With the notice served on 25 May 2015, Reale Immobili (as transferee of the company) and Italiana Assicurazioni continued proceedings, following the ruling of the Court of Cassation, before the Court of Appeal of Milan. At the hearing on 29 October 2015, the Board postponed the hearing for closing arguments on 14 July 2016.

Guarantees given by third parties to the Cairo Communication Group amounted to Euro 2,862 thousand and are attributable to guarantees issued by banks.

It is also noted that:

- The consolidated financial statements at 31 December 2015 do not include any receivables or payables with a residual term exceeding five years.
- The consolidated financial statements at 31 December 2015 reflect the capitalization of financial charges of Euro 652 thousand (Euro 386 thousand in 2014), entered under assets under development of intangible assets and regarding the investments made by Cairo Network S.r.l.

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34. Related party transactions

Transactions between the parent and its consolidated subsidiaries, which are its related parties, have been eliminated from the consolidated financial statements and are therefore not shown in this note.

The Group holds relations with the parent (UT Communications S.p.A.) and with the latter's subsidiaries at conditions deemed normal in their respective relevant markets, taking into account the nature of services offered. Below is a summary of the statement of financial position and income statement balances deriving from the transactions made in 2015 with these related parties. The identification and disclosure regarding related parties were made in accordance with the IAS 24 Revised. Based on this Standard, related parties were identified as the parents, subsidiaries, associates and affiliates of the Group, as shown in the list attached to this Annual Report ("List of investments of the Group at 31 December 2015"). The Ultimate Parent of the Group is U.T. Communications S.p.A.

The effects of these relations on the consolidated statement of financial position of the Cairo Communication Group at 31 December 2015 are as follows:

Income and expense (Euro/000)	Operating revenue	Operating costs	Financial income	Financial charges
Parent				
UT Communications S.p.A.	-	-	-	-
Associates				
Torino FC S.p.A.	186	2,436	-	-
Total	**186**	**2,436**	**-**	**-**

In 2015, the relations and transactions with the parent U.T. Communications and with its subsidiaries can be analyzed as follows:

Receivables and financial assets (Euro/000)	Trade receivables	Other receivables and current assets	Receivables tax consolidation scheme	Other current financial assets
Parent				
UT Communications S.p.A.		-	3,167	-
Associates				
Torino FC S.p.A.	97	-	-	-
MP Service S.r.l.	-	47	-	-
	97	**47**	**3,167**	-

Payables and financial liabilities (Euro/000)	Trade payables	Other payables and current liabilities	Payables tax consolidation scheme	Other current financial liabilities
Parent				
UT Communications S.p.A.	-	-	818	-
Associates			-	
Torino FC S.p.A.	1,285	-	-	-
Total	**1,285**	**-**	**818**	**-**

In 2015, 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 2015, 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 2015 of Euro 2,357 thousand to the concession holder against total revenue of Euro 2,728 thousand net of agency discounts. Cairo Pubblicità earned further commissions of Euro 78 thousand. As part of the advertising contract, Cairo Pubblicità also purchased football tickets worth Euro 79 thousand and recharged Torino F.C. pertaining costs of Euro 8 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 already mentioned, Cairo Communication and its subsidiaries Cairo Editore S.p.A., Cairo Pubblicità S.p.A., Diellesei S.r.l. in liquidation, Cairo Publishing S.r.l., La7 S.p.A. (former La7 S.r.l.) and Cairo Network S.r.l. participate in the national tax consolidation scheme of UT Communications S.p.A. The consolidation scheme, which governs the financial aspects of amounts paid or received in return for the advantages or disadvantages resulting from the tax consolidation, specifically provides that any greater charges or minor benefits that may accrue to the Company resulting from participation in the scheme, be suitably remunerated by the parent. In relation to this, the consolidated financial statements at 31 December 2015 include receivables from and payables to the parent UT Communications S.p.A. of Euro 3,108 thousand and Euro 818 thousand respectively.

In 2015, Studio Magnocavallo e Associati, of which lawyer Antonio Magnocavallo Director of the Parent, is a partner, and earned fees for professional services provided to companies of the Cairo Communication Group for approximately Euro 214 thousand.

Fees paid to directors in 2015 are analyzed in Note 36 "*Board of Directors' and Board of Statutory Auditors' fees*".

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

The procedures adopted by the Group for related party transactions, to ensure transparency and substantial and procedural fairness, made by the Company either directly or through its subsidiaries, are illustrated in the Directors' Report in the section on the "*Report on Corporate governance*".

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35. Risk management

Liquidity risk

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 105.8 million while, on the other hand, the Group attempts to ensure that an appropriate ability to generate cash is maintained, even under the current market conditions.

An analysis of the company's equity structure shows both liquidity, or the ability to maintain financial stability in the short term, and solidity, or the ability to maintain financial stability in the medium/long term.

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

Currency and interest rate risks

The Cairo Communication Group is not exposed to interest rate and currency risk,

in that on one hand, the net financial position shows a positive figure, whilst on the other hand operations are carried out exclusively in Italy, and revenue is generated entirely in the country and main costs are incurred in Euro.

The interest rate risk only affects the net yield on available cash.

Movements in the cash flows and the liquidity of Group companies are centrally monitored and managed by Group Treasury in order to guarantee effective and efficient management of financial resources.

Given the limited exposure to both interest rate and FOREX risk, the Group limited use of financial hedging instruments, to hedge currency risk on the acquisition of TV rights from film studios.

Credit risk

The Group is 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. In terms of concentration, the top 10 customers represent approximately 11% (12% in 2014) of total sales, whilst the top 100 customers represent 50% (54% in 2014). These ratios are basically in line with prior years.

The persisting uncertainty factors in the short and medium term, along with the resulting credit squeeze, may of course impact negatively the quality of credit and general payment terms.

The publishing segment, on the other hand, presents limited exposure to credit risk as publishing revenue is basically generated by one single party - the Group - while for distribution revenue, the distribution contract provides for an advance payment equal to a highly significant percentage of the estimated sales of each magazine.

The Group's maximum theoretical exposure to credit risks at 31 December 2015 is given by the carrying amount of trade receivables and other recognized current assets totaling Euro 83.8 million (88.4 million at 31 December 2014), and by the nominal amount of guarantees given on third-party debts or commitments as indicated in Note 33.

The credit risks associated with cash and cash equivalents, with a maximum theoretical exposure of Euro 125.8 million (Euro 149.1 million at 31 December 2014), are considered irrelevant as they are deposits spread across various banks.

…

36. Board of Directors' and Board of Statutory Auditors' fees

The following information refers to the 2015 fees paid to Directors, Statutory Auditors, General Managers and key management personnel, also in subsidiaries, analyzed in detail in the Remuneration Report, prepared pursuant to art. 123 ter of the TUF:

Name	Position	Term of office	Term expiry date	Fees *	Benefits in kind	Bonuses and other incentives	Other fees**
Urbano R. Cairo	Chairman of the Board	Jan-Dec 2015	31/12/2016	500	16	-	510
Uberto Fornara	CEO	Jan-Dec 2015	31/12/2016	240	5	-	510
Maria Laura Cairo	Director	Jan-Dec 2015	31/12/2016	20	-	-	-
Stefania Petruccioli	Director	Jan-Dec 2015	31/12/2016	32	-	-	-
Roberto Cairo	Director	Jan-Dec 2015	31/12/2016	20	-	-	-
Marco Janni	Director	Jan-Dec 2015	31/12/2016	28	-	-	-
Antonio Magnocavallo	Director	Jan-Dec 2015	31/12/2016	34	-	-	-
Marco Pompignoli	Director	Jan-Dec 2015	31/12/2016	350	5	-	300
Roberto Rezzonico	Director	Jan-Dec 2015	31/12/2016	34	-	-	-
Mauro Sala	Director	Jan-Dec 2015	31/12/2016	32	-	-	-
Key management personnel	N/A	Jan-Dec 2015	N/A	-	15	-	1,242
Marco Moroni	Chairman Board of Statutory Auditors	Jan-Dec 2015	31/12/2016	30	-	-	25
Mariapia Maspes	Standing auditor	Jan-Dec 2015	31/12/2016	20	-	-	17
Marco Giuliani	Standing auditor	Jan-Dec 2015	31/12/2016	20	-	-	-

***** *Other fees, in addition to fees for the role of director (Euro 20 thousand), refer to:*

- *Urbano Cairo: fees pursuant to art. 2389, paragraph 3, Italian Civil Code (Euro 480 thousand);*
- *Uberto Fornara: fees pursuant to art. 2389, paragraph 3, Italian Civil Code (Euro 220 thousand);*
- *Marco Janni: fees for attendance in meetings of the Related Party Committee (Euro 8 thousand);*
- *Antonio Magnocavallo: fees for attendance in meetings of the Remuneration Committee and the Control and Risk Committee (Euro 14 thousand);*
- *Marco Pompignoli: fees pursuant to art. 2389, paragraph 3, Italian Civil Code (Euro 330 thousand);*
- *Roberto Rezzonico: fees for attendance in meetings of the Remuneration Committee and Control and Risk Committee (Euro 14 thousand);*
- *Mauro Sala: fees for attendance in meetings of the Risk and Control Committee and the Related Party Committee (Euro 12 thousand)*

*** Other fees refer to:*

- *Urbano Cairo: fees for his duties performed for Cairo Editore (Euro 500 thousand) and other companies of the Group (Euro 10 thousand).*
- *Uberto Fornara: gross fees as senior manager payable by Cairo Communication (Euro 300 thousand), remuneration from the non-compete agreement (Euro 100 thousand), fees for his duties performed for Cairo Pubblicità (Euro 100 thousand) and other companies of the Group (Euro 10 thousand).*
- *Marco Pompignoli: gross fees as senior manager payable by Cairo Communication (Euro 200 thousand), and fees for his duties performed for Cairo Pubblicità (Euro 90 thousand) and other companies of the Group (Euro 10 thousand).*
- *Key management personnel: gross fixed annual Group fees for a total of Euro 1,010 thousand (comprising gross remuneration as manager) and variable incentive components amounting to Euro 232 thousand.*

Moreover, under Consob Communication no. DEM/11012984 of 24 February 2011, point 2.3, letters (a) and (f), it should be noted that:

- there are no agreements in place between the Parent and the directors for any indemnity in the event of resignation or unjust dismissal, or in the event their employment relationship ceases following a takeover bid;
- there are agreements in place between the Parent and Uberto Fornara, subject to non-competition commitments for 18 months following termination of his management relationship with the Parent, for payment during his relationship of a gross annual fee of Euro 100 thousand. In the event of termination of employment before payment, as remuneration for the non-competition agreement, as of May 2014, of the total sum of Euro 450 thousand, to be considered a minimum consideration of the agreement, the Company will pay the manager the difference between such minimum amount and the amount paid until then as remuneration for the agreement.

Moreover, there are no succession plans regarding executive directors.

At 31 December 2015, key management personnel of the Cairo Communication Group was composed of:

- Giuseppe Ferrauto (Director, General Manager and manager of Cairo Editore);
- Giuliano Cesari (executive director and General Manager of Cairo Pubblicità) and manager of Cairo Communication;
- Marco Ghigliani (CEO, General Manager and manager of La7).

To date, Cairo Communication has no stock option plans in place.

37. Transactions deriving from atypical and/or unusual or non-recurring transactions

Pursuant to Consob Communication of 28 July 2006 n. DEM/6064296, it should be noted that in 2015 the Cairo Communication Group did not engage in any atypical and/or unusual transactions as defined by the above Communication.

For the Board of Directors

Chairman Urbano R. Cairo

Cairo Communication S.p.A.

Consolidated Financial Statements at 31 December 2015

– Appendices

APPENDIX 1

CAIRO COMMUNICATION GROUP COMPANIES

The following table lists all Cairo Communication Group companies, showing the company name, registered office, quota capital, and shares held, whether directly or indirectly, by the Parent Cairo Communication S.p.A. and by each subsidiary, the consolidation method.

Company	Head office	Share capital at 31/12/14:	% of investment	Reporting date	Business	Consolidation method
Cairo Communication S.p.A.	Milan	4,074		31/12	Advertising	Full
Cairo Editore S.p.A.	Milan	1,043	99.95	31/12	Publishing	Full
Diellesei S.r.l. in liquidation	Milan	10	60	31/12	In liquidation	Full re assets and liabilities (*)
La7 S.p.A. (former La 7 S.r.l.)	Rome	1,020	100	31/12	TV publishing	Full
Cairo Pubblicità S.p.A.	Milan	2,818	100	31/12	Advertising	Full
Cairo Publishing S.r.l.	Milan	10	100	31/12	Publishing	Full
Il Trovatore S.r.l.	Milan	25	80	31/12	Internet	Full
Cairo Network S.r.l.	Milan	5,500	100	31/12	Network operator	Full
Edizioni Anabasi S.r.l.	Milan	10	99.95	31/12	Publishing	Full

(*) the income statement is consolidated on a single line basis in profit/(loss) from discontinued operations

APPENDIX

Information pursuant to Article 149-duodecies of Consob's Issuer Regulations

The following summary, prepared pursuant to art. 149-xii of Consob's Issuer Regulations, shows the fees for the current period for auditing services and for non-audit services provided by the Audit Firm.

Euro/000	Services provided by	Fees for the year
Audit		
Parent - Cairo Communication S.p.A.	KPMG S.p.A.	75
Subsidiaries		
- Cairo Pubblicità S.p.A.	KPMG S.p.A.	35
- Cairo Editore S.p.A.	KPMG S.p.A.	60
- La7 S.p.A. (former La7 S.r.l.)	KPMG S.p.A.	75
- Cairo Network S.r.l.	KPMG S.p.A.	17

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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Cairo Communication S.p.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Cairo Communication Group (the "group"), which comprise the statement of financial position as at 31 December 2015, the income statement and statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto.

Directors' responsibility for the consolidated financial statements

The parent's directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Independent auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) promulgated pursuant to article 11.3 of Legislative decree no. 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the group's financial position as at 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Report on other legal and regulatory requirements

Opinion on the consistency of the directors' report and certain information presented in the report on corporate governance and ownership structure with the consolidated financial statements

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion, as required by the law, on the consistency of the directors' report and the information presented in the report on corporate governance and ownership structure required by article 123-bis.4 of Legislative decree no. 58/98, which are the responsibility of the parent's directors, with the consolidated financial statements. In our opinion, the directors' report and the information presented in the report on corporate governance and ownership structure referred to above are consistent with the consolidated financial statements of the Cairo Communication Group as at and for the year ended 31 December 2015.

Milan, 5 April 2016

KPMG S.p.A.

(signed on the original)

Francesco Spadaro
Director of Audit

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81 TER OF CONSOB REGULATION 11971 OF 14 MAY 1999 AND SUBSEQUENT MODIFICATIONS AND AMENDMENTS

1. The undersigned Urbano Roberto Cairo, as Chairman of the Board of Directors, and Marco Pompignoli, as Financial Reporting Manager of Cairo Communication S.p.A., also in accordance with art. 154 bis, paragraphs 3 and 4 of Legislative Decree n. 58 of 24 February 1998, certify:

• the adequacy of the characteristics of the Parent and

• the effective application of administrative and accounting procedures for the preparation of the 2015 consolidated financial statements.

2. We also certify that

2.1 the consolidated financial statements at 31 December 2015:

a) have been prepared in compliance with International Financial Reporting Standards endorsed by the European Union, pursuant to EEC Regulation 1606/2002 of the European Parliament and Council, of 19 July 2002,

b) are consistent with the accounting records and books of the Company,

c) give a true and fair view of the financial position and results of operations of the Issuer and the companies included in the scope of consolidation;

2.2 the Directors' Report contains a reliable analysis on performance and operating results, as well as on the position of the Issuer and on the companies included in the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

Milan, 14 March 2016

For the Board of Directors Chairman	Financial Reporting Manager
……………………………………..	………………………………………….
(Urbano Roberto Cairo)	(Marco Pompignoli)