CAIROCOMMUNICATION

Annual Report at 31 December 2018

Cairo Communication S.p.A.
Head office: Corso Magenta 55, Milan
Share capital Euro 6,989,663.10

English translation for convenience of international readers. Only the Italian version is authentic

Governance

Board of Directors

Urbano Cairo*	Chairman
Uberto Fornara	CEO
Daniela Bartoli	Director
Giuseppe Brambilla di Civesio	Director
Laura Maria Cairo	Director
Roberto Cairo	Director
Marella Caramazza	Director
Massimo Ferrari	Director
Paola Mignani	Director
Marco Pompignoli	Director

Control and Risk Committee

Paola Mignani	Director
Daniela Bartoli	Director
Massimo Ferrari	Director

Remuneration and Appointments Committee

Marella Caramazza	Director
Daniela Bartoli	Director
Giuseppe Brambilla di Civesio	Director

Related Party Committee

Massimo Ferrari	Director
Marella Caramazza	Director
Paola Mignani	Director

Board of Statutory Auditors

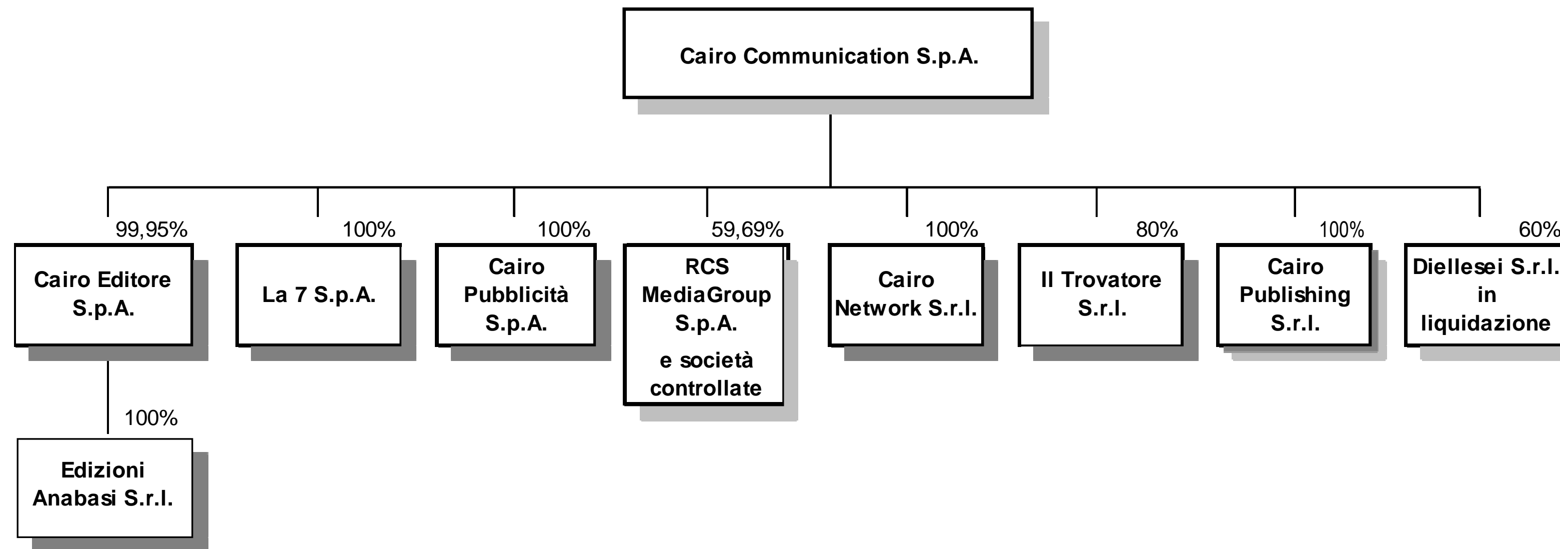
Michele Paolillo	Chairman
Marco Moroni	Standing Auditor
Gloria Marino	Standing Auditor
Laura Guazzoni	Alternate Auditor
Domenico Fava	Alternate Auditor

Independent Auditors

KPMG S.p.A.

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

The Group at 31 December 2018



DIRECTORS' REPORT

Separate and consolidated financial statements at 31 December 2018

Shareholders,

the separate and consolidated financial statements as at and for the year ended 31 December 2018, submitted for your approval, show, respectively, a profit of Euro 6.4 million and a profit attributable to the owners of the parent of Euro 60.3 million.

With the acquisition of the control of RCS in 2016, Cairo Communication has become a major multimedia publishing group, with a stable, independent leadership, well-positioned to become one of the main player on the Italian market, with a strong international presence in Spain, by leveraging on the high quality and diversification of products in the dailies, magazines, television, web and sporting events segments.

In 2018, the Group operated as a:

- publisher of magazines and books (Cairo Editore/Editoriale Giorgio Mondadori and Cairo Publishing);
- TV (La7, La7d) and Internet (La7.it, TG.La7.it) publisher;
- multimedia advertising broker (Cairo Pubblicità) for the sale of advertising space on TV, in print media, on the Internet and in stadiums;
- publisher of dailies and magazines (weeklies and monthlies) with the relating print and online advertising sales, in Italy and in Spain, through RCS MediaGroup, also active in the organization of major world sporting events;
- network operator (Cairo Network); January 2017 marked the start of the broadcasting of La7 and La7d channels on the mux.

In 2018, the general economic and financial climate continued to be marked by uncertainty.

The Italian economy in 2018 confirmed its growth trend, but slowed down starting from the third quarter, showing an estimated increase in GDP of 0.9% (*ISTAT*), lower than in 2017 and the European average.

In Spain, a market of operation for RCS through its subsidiary Unidad Editorial, GDP increased by 2.5% in 2018, slightly lower than in 2017 (3.1%), confirming the upswing of Gross Domestic Product for the fourth consecutive year (*INE).*

In Italy, in 2018, the advertising market basically confirmed the figures of 2017, with magazine and newspaper advertising markets down by 8.2% and 6.2%, while TV and online advertising grew by 0.6% and 4.5% versus 2017 (*AC Nielsen*).

The Spanish advertising sales market increased by 1.3% versus 2017 (*i2p, Arce Media*). Specifically, the daily newspaper and magazine market fell by 6.8% and 10%, respectively, versus 2017. Advertising sales on the Internet (excluding social media) drove the market and increased by 14.8%.

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

In terms of circulation, in Italy the unfavourable trend in the print products market also continued in 2018. Specifically, the main national generalist daily newspapers (with a circulation above 50 thousand copies) reported a 5.6% drop in circulation in 2018 (including digital copies), while the main sports newspapers fell by 10.3% (including digital copies) versus 2017 (*ADS January-December 2018*).

As for magazines, looking at the circulation market for weekly titles declared in ADS in 2018, the market was down overall by approximately 8.5% (-5.3% including digital copies) (Internal source based on ADS figures).

The same trend was seen in Spain, with daily newspaper sales down versus 2017. Cumulative figures on circulation at December 2018 (*OJD*) regarding general information newspapers (generalist newspapers with a circulation above 60 thousand copies), business newspapers and sports newspapers indicate a drop of 11.2%, 5.2% and 10.4%, respectively.

In 2018:

- **RCS** continued its relaunch, with margins growing strongly versus the prior year, in line with 2018 performance targets, thanks to the initiatives implemented to maintain and develop revenue and to the ongoing efficiency actions, which generated benefits of approximately Euro 25.7 million in the period. In 2018, RCS achieved a net profit of Euro 85.2 million[1] (up sharply from Euro 71.1 million[1] in 2017, which had benefited for approximately Euro 14.9 million from the capital gain from the sale of the minority interest held in Istituto Europeo di Oncologia). In view of the results achieved, the RCS Board will propose a dividend to the Shareholders' Meeting of Euro 0.06 per share, returning to distribution after 10 years;
- the **TV publishing segment La7** reported a sharp increase in La7's audience (+28.1% in all-day share and +36% in prime time versus 2017). Advertising sales on La7 and La7d channels, amounting to Euro 149.2 million, were equally on the rise by over 8.3% versus

[1] Amounts and comparisons based on the RCS 2018 Annual Report, approved on 18 March 2019.

2017 (Euro 137.8 million), increasing strongly in the second half of the year (approximately +17%);

- the **magazine publishing segment Cairo Editore** posted positive results, achieved high circulation levels of the publications, and continued to work on improving the levels of efficiency reached in containing costs (production, publishing and distribution).

Mention should be made that this Annual Report incorporates the new IFRS 15, which came into effect as of 1 January 2018. The income statement figures of 2018, therefore, cannot be directly compared with the corresponding amounts of the prior year. Specifically, if this new standard had not been applied, consolidated gross revenue in 2018 would amount to Euro 1,218 million instead of Euro 1,322.8 million, with a difference of Euro 104.8 million[2] (Euro 106.8 million the effect on net revenue, which resulted in a corresponding increase in the cost of raw and ancillary materials and consumables of Euro 19.7 million and in service costs of Euro 87.1 million).

The effects of the new standard are therefore restricted to a different presentation of costs and revenue, with no impact on the consolidated result for the year.

In 2018, Group consolidated gross revenue amounted to approximately Euro 1,322.8 million (comprising gross operating revenue of Euro 1,299.5 million and other revenue and income of Euro 23.3 million) versus Euro 1,212.3 million in 2017 (comprising gross operating revenue of Euro 1,186.2 million and other revenue and income of Euro 26.1 million). Excluding from the comparison with the figures in 2017 the effects arising from the adoption of the new IFRS 15, gross consolidated revenue would be up by Euro 5.7 million.

Gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 182.8 million and Euro 127.3 million (Euro 168.8 million and Euro 102.7 million in the prior year). Profit attributable to the owners of the parent came to approximately Euro 60.3 million (Euro 52 million in 2017).

Looking at the business segments, in 2018:

- in the **magazine publishing segment (Cairo Editore)**, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 8.5 million and Euro 7.5 million (Euro 12.2 million and Euro 11.1 million in 2017), and were impacted negatively by the launch costs of approximately Euro 0.5 million incurred for "*Enigmistica Mia*". With regard to weeklies, with approximately 1.5 million average copies sold in the January-December twelve-month

[2] Attributable to higher revenue from the sale of publications of Euro 131.1 million, to advertising revenue of Euro -13.6 million and to other revenue of Euro -12.7 million.

period of 2018 (*ADS*), Cairo Editore retains its position as the leading publisher in copies of weeklies sold at newsstands, with an approximately 30% market share. Including the average sales of titles out of the ADS survey (the copies sold of *"Enigmistica Più"* and of "*Enigmistica Mia"*), average copies sold were approximately 1.6 million;

- in the **TV publishing segment (La7),** the Group achieved gross operating profit (EBITDA) of approximately Euro 8.6 million (Euro 7 million in 2017), impacted also by the increase in programming costs of approximately Euro 3.8 million to improve programming quality, which contributed to the strong growth of the share, and by increased costs for television signal transmission incurred for the Group company Cairo Network. There is usually a certain time gap between audience trends and advertising sales results. In second half 2018, following the outstanding audience results of the first half of the year, total advertising sales on La7 and La7d accelerated their growth trend (+17%). Based on these results, advertising sales are expected to continue to grow in 2019. Operating profit (EBIT) was approximately Euro -1.2 million (Euro -3 million in 2017);
- in the **network operator segment**, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 1.7 million and Euro -0.5 million (Euro 0.6 million and Euro -1.6 million in 2017);
- in the **advertising segment**, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 0.2 million and Euro -0.1 million (Euro 0.4 million and at breakeven in 2017);
- in the **RCS segment**, in the consolidated financial statements of Cairo Communication, gross operating profit (EBITDA) and operating profit (EBIT) amounted to Euro 163.8 million[3] and Euro 121.6 million, rising sharply by Euro 15.4 million and Euro 25.6 million versus 2017 (Euro 148.4 million and Euro 96 million). Net operating revenue amounted to Euro 975.6 million. Excluding from the comparison with the figures in 2017 the effects arising from the adoption of the new IFRS 15, RCS net revenue would be up by Euro 3.4 million. At circulation level, the dailies *Corriere della Sera*, *La Gazzetta dello Sport*, *Marca* and *Expansión* continue to lead their respective segments. *El Mundo* is once again the second most popular general daily in Spain for circulation at newsstands. In 2018, the digital performance indicators of the RCS daily newspaper sites continued to grow strongly: average monthly unique browsers of *gazzetta.it* increased by 17.9% (34.3 million) and

[3] Mention should be made that RCS adopts a different definition of EBITDA from the one used by the Cairo Communication Group, as indicated in the above section "Alternative Performance Measures". As a result of these differences, which lie in the provisions for risks and in the allowance for impairment, amounting in the year to Euro 8.4 million, EBITDA shown in the RCS 2018 Annual Report approved on 18 March 2019 amounted to Euro 155.3 million.

corriere.it by 4% (48.9 million) versus 2017 (*Adobe Analytics*). At December 2018, the total active customer base for *Corriere della Sera* was 135 thousand subscribers, up by 29% versus 2017. In Spain too, average monthly unique browsers of *elmundo.es* (+9.1% reaching 54.3 million) and *marca.com* (+29.4% reaching 57.7 million) grew versus the prior year (*Omniture*). Against this backdrop, RCS revenue from digital activities rose by 12.6% versus 2017 to reach Euro 163 million, propelled also by the growth in digital advertising revenue, which reached approximately Euro 126 million in 2018 (+15.1 million versus 2017).

In 2018, La7's average all-day share was 3.69%, up by 28.1% versus 2017, and 4.87% in prime time (from 8:30 PM to 10:30 PM), rising sharply by 36% versus 2017, with a high-quality target audience. Thanks to these results, in 2018 La7 is the generalist channel that reported the strongest growth in audience on the Italian television scene. La7d's share was 0.52% (0.41% in prime time). The channel's news and discussion programmes all continued to show remarkable and increasingly strong audience figures: *Otto e Mezzo* with a 7.1% average share from Monday to Friday (+23.4% versus 2017), *TgLa7 edizione delle 20* 5.8% from Monday to Friday (+8.4% versus 2017), *diMartedì* 7.4% (+47.6% versus 2017), *Piazzapulita* 5.9% (+36.4% versus 2017), *Propaganda Live* 4.6% (+67% versus 2017), *Non è l'Arena* 7% (+8.2% versus 2017), *Omnibus Dibattito* 4.6% (+22% versus 2017), *Coffee Break* 4.9% (+24.4% versus 2017), *L'Aria che tira* 6.85% (+31% versus 2017), *Tagadà* 3.6% (+47.2% versus 2017), *In Onda* 5.1% (+24.8% versus 2017), the *Maratone Mentana* (14.27% share the 4 March marathon) and the election specials.

In 2018, La7 was firmly the sixth national prime time network for average listeners, and achieved in the entire morning slot (07.00-12.00) high ratings with an average share of 4.52%, up by 21.8% in the same slot in 2017, ranking as fourth generalist network in the year.

On the web front too, remarkable results were achieved, with over 26 million (+51% versus 2017) average unique browsers on La7 sites (*La7.it*, *TGla7.it*, *Sedanoallegro.it*) and the *TGla7* app, and 415 million views of its programmes on its digital platforms and on YouTube channels (+76% versus 2017).

PERFORMANCE

Cairo Communication Group – Consolidated figures

The main **consolidated income statement figures** in 2018 can be compared with the figures in 2017:

(€ millions)	31/12/2018	31/12/2017
Gross operating revenue	1,299.5	1,186.2
Advertising agency discounts	(75.4)	(76.8)
Net operating revenue	**1,224.1**	**1,109.4**
Change in inventory	0.3	(0.3)
Other revenue and income	23.3	26.1
Total revenue	**1,247.8**	**1,135.3**
Production cost	(739.7)	(645.3)
Personnel expense	(328.0)	(321.4)
Income (expense) from equity-accounted investees	2.5	2.1
Non-recurring income (expense)	0.2	(1.8)
Gross operating profit (EBITDA)	**182.8**	**168.8**
Amortization, depreciation, provisions and impairment losses	(55.5)	(66.1)
EBIT	**127.3**	**102.7**
Other income (expense) from financial assets/liabilities	(0.9)	16.2
Net financial income	(14.5)	(24.8)
Profit (loss) before tax	**111.9**	**94.1**
Income tax	(14.7)	(10.8)
Non-controlling interests	(37.1)	(31.3)
Profit from continuing operations attributable to the owners of the parent	**60.1**	**52.0**
Profit (loss) from discontinued operations	0.2	-
Profit attributable to the owners of the parent	**60.3**	**52.0**

In 2018, consolidated gross revenue amounted to approximately Euro 1,322.8 million (comprising gross operating revenue of Euro 1,299.5 million and other revenue and income of Euro 23.3 million) versus Euro 1,212.3 million in 2017 (comprising gross operating revenue of Euro 1,186.2 million and other revenue and income of Euro 26.1 million). Mention should be made that if the new IFRS 15, which came into force as of 1 January 2018, had not been applied, consolidated gross revenue in 2018 would amount to Euro 1,218 million instead of Euro 1,322.8 million.

Consolidated gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro 182.8 million and Euro 127.3 million (Euro 168.8 million and Euro 102.7 million in 2017). In 2018, the overall net effect of non-recurring income and expense amounted

to a positive Euro 0.2 million, resulting from income of Euro 2.6 million, offset by expense of Euro 2.4 million attributable to RCS. In 2017, net non-recurring expense amounted to Euro 1.8 million.

In 2018, operating profit (EBIT) in the TV publishing segment (La7) benefited in the consolidated financial statements, with respect to the financial statements of La7 S.p.A., from lower amortization and depreciation of Euro 1.6 million (Euro 3.3 million in 2017), due to the write-down of tangible and intangible assets made in 2013 in the purchase price allocation of the investment in La7.

Operating profit (EBIT) in the RCS segment was negatively affected, in the consolidated financial statements, by higher amortization of intangible assets of Euro 2 million, due to the valuations made in the purchase price allocation of the investment in RCS, specifically to the allocation of amounts to intangible assets (previously unrecognized), mainly attributable to Italian trademarks and magazine titles with finite useful life.

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

€ millions		**2018**	**2017**
Profit for the year		**97.4**	**83.3**
Reclassifiable items of the comprehensive income statement			
Gains (losses) from the translation of financial statements denominated in foreign currencies		-	-
Reclassification of gains (losses) from the translation of financial statements in foreign currencies		-	-
Gains (losses) on cash flow hedges	31	(1.5)	(0.2)
Reclassification of gains (losses) on cash flow hedges	31	1.1	3.6
Tax effect		0.1	(0.8)
Non-reclassifiable items of the comprehensive income statement			
Actuarial profit (loss) from defined benefit plans		0.5	(0.4)
Tax effect		(0.1)	0.1
Gains (losses) from fair value measurement of equity instruments	17	(1.5)	-
Total comprehensive income for the period		**96.0**	**85.6**
- Owners of the parent		59.5	53.2
- Non-controlling interests - continuing operations		36.5	32.4
		96.0	**85.6**

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

2018 (€ millions)	Magazine publishing Cairo Editore	Advertising	TV publishing La7	Network operator (Cairo Network)	RCS	Trovatore	Intra and un allocated	Total
Gross operating revenue	111.4	183.4	106.8	12.0	1,025.6	0.9	(140.7)	1,299.5
Advertising agency discounts	-	(25.6)	-	-	(50.0)	-	0.3	(75.4)
Net operating revenue	**111.4**	**157.8**	**106.8**	**12.0**	**975.6**	**0.9**	**(140.4)**	**1,224.1**
Change in inventory	0.0	-	-	-	0.3	-	-	0.3
Other revenue and income	2.4	0.6	4.7	0.1	17.2	0.0	(1.6)	23.3
Total revenue	**113.8**	**158.4**	**111.5**	**12.1**	**993.1**	**0.9**	**(142.0)**	**1,247.8**
Production cost	(85.8)	(148.3)	(67.5)	(10.3)	(569.1)	(0.7)	142.0	(739.7)
Personnel expense	(19.5)	(9.9)	(35.5)	(0.1)	(262.9)	(0.1)	-	(328.0)
Income (expense) from equity-accounted investees	-	-	-	-	2.5	-	-	2.5
Non-recurring income (expense)	-	-	-	-	0.2	-		0.2
Gross operating profit (EBITDA)	**8.5**	**0.2**	**8.6**	**1.7**	**163.8**	**0.1**	**0.0**	**182.8**
Amortization, depreciation, provisions and impairment losses	(1.0)	(0.3)	(9.8)	(2.2)	(42.2)	0.0	-	(55.5)
EBIT	**7.5**	**(0.1)**	**(1.2)**	**(0.5)**	**121.6**	**0.1**	**0.0**	**127.3**
Other gains (losses) on financial assets/liabilities	-	-	-	-	(0.9)	-	-	(0.9)
Net financial income	0.0	(0.5)	0.1	(0.0)	(14.1)	(0.0)	-	(14.5)
Profit (loss) before tax	**7.5**	**(0.6)**	**(1.1)**	**(0.6)**	**106.6**	**0.1**	**0.0**	**111.9**
Income tax	(1.6)	(0.1)	1.5	0.1	(14.6)	(0.0)	-	(14.7)
Non-controlling interests	-	-	-	-	(37.1)	(0.0)		(37.1)
Profit from continuing operations	**6.0**	**(0.8)**	**0.4**	**(0.5)**	**54.9**	**0.1**	**0.0**	**60.1**
Profit (loss) from discontinued operations	-	-	-	-	-	-	0.2	0.2
Profit for the period	**6.0**	**(0.8)**	**0.4**	**(0.5)**	**54.9**	**0.1**	**0.2**	**60.3**

2017 (€ millions)	Magazine publishing Cairo Editore	Advertising	TV publishing La7	Network operator (Cairo Network)	RCS	Trovatore	Intra and un allocated	Total
Gross operating revenue	90.1	173.1	99.1	7.9	943.6	0.9	(128.5)	1,186.2
Advertising agency discounts	-	(24.4)	-	-	(52.6)	-	0.2	(76.8)
Net operating revenue	**90.1**	**148.7**	**99.1**	**7.9**	**891.0**	**0.9**	**(128.4)**	**1,109.4**
Change in inventory	0.0	-	-	-	(0.3)	-	-	(0.3)
Other revenue and income	2.9	0.8	2.3	0.1	20.9	0.0	(0.9)	26.1
Total revenue	**93.0**	**149.5**	**101.4**	**8.0**	**911.6**	**0.9**	**(129.2)**	**1,135.3**
Production cost	(61.1)	(140.0)	(60.0)	(7.3)	(505.4)	(0.7)	129.2	(645.3)
Personnel expense	(19.7)	(9.1)	(34.4)	(0.2)	(258.1)	(0.0)	-	(321.4)
Income (expense) from equity-accounted investees	-	-	-	-	2.1	-	-	2.1
Non-recurring income (expense)	-	-	-	-	(1.8)	-	-	(1.8)
Gross operating profit (EBITDA)	**12.2**	**0.4**	**7.0**	**0.6**	**148.4**	**0.1**	**0.0**	**168.8**
Amortization, depreciation, provisions and impairment losses	(1.1)	(0.4)	(10.1)	(2.2)	(52.3)	0.0	-	(66.1)
EBIT	**11.1**	**0.0**	**(3.0)**	**(1.6)**	**96.0**	**0.1**	**0.0**	**102.7**
Other gains (losses) on financial assets/liabilities	-	-	-	-	16.2	-	-	16.2
Net financial income	(0.0)	(0.4)	0.2	(0.1)	(24.4)	(0.0)	-	(24.8)
Profit (loss) before tax	**11.1**	**(0.4)**	**(2.9)**	**(1.7)**	**87.8**	**0.1**	**0.0**	**94.1**
Income tax	(3.4)	(0.4)	2.1	0.4	(9.4)	(0.0)	-	(10.8)
Non-controlling interests	-	-	-	-	(31.3)	(0.0)	-	(31.3)
Profit from continuing operations	**7.7**	**(0.8)**	**(0.8)**	**(1.3)**	**47.1**	**0.1**	**0.0**	**52.0**
Profit (loss) from discontinued operations	-	-	-	-	-	-	-	-
Profit for the period	**7.7**	**(0.8)**	**(0.8)**	**(1.3)**	**47.1**	**0.1**	**0.0**	**52.0**

Gross operating revenue in 2018, split up by main business segment, can be analyzed as follows versus the amounts of 2017:

2018 (€ millions)	Magazine publishing Cairo Ed.	Advertising	TV publishing La7	Network operator Cairo Network	RCS	Trovatore	Intra and un allocated	Total
TV advertising	-	152.1	102.7	-	1.8	-	(105.6)	**151.0**
Advertising on print media, Internet and sporting events	19.5	30.7	1.6	-	454.0	-	(20.5)	**485.3**
Other TV revenue	-	-	2.5	-	7.8	-	(0.3)	**10.1**
Magazine over-the-counter sales and subs	93.4	-	-	-	437.7	-	(0.3)	**530.8**
VAT relating to publications	(1.5)	-	-	-	(5.3)	-	-	**(6.8)**
Other revenue	-	0.6	-	12.0	129.6	0.9	(14.0)	**129.2**
Total gross operating revenue	**111.4**	**183.4**	**106.8**	**12.0**	**1,025.6**	**0.9**	**(140.7)**	**1,299.5**
Other revenue	2.4	0.6	4.7	0.1	17.2	0.0	(1.6)	23.3
Total gross revenue	**113.8**	**184.0**	**111.5**	**12.1**	**1,042.8**	**0.9**	**(142.3)**	**1,322.8**

2017 (€ millions)	Magazine publishing Cairo Ed.	Advertising	TV publishing La7	Network operator Cairo Network	RCS	Trovatore	Intra and un allocated	Total
TV advertising	-	141.3	95.6	-	2.9	-	(96.8)	**143.0**
Advertising on print media, Internet and sporting events	20.4	31.2	1.6	-	459.5	-	(21.0)	**491.7**
Other TV revenue	-	-	1.9	-	8.7	-	(0.5)	**10.0**
Magazine over-the-counter sales and subsc	71.2	-	-	-	345.1	-	(0.3)	**416.1**
VAT relating to publications	(1.5)	-	-	-	(4.8)	-	-	**(6.3)**
Other revenue	-	0.6	-	7.9	132.2	0.9	(9.9)	**131.7**
Total gross operating revenue	**90.1**	**173.1**	**99.1**	**7.9**	**943.6**	**0.9**	**(128.5)**	**1,186.2**
Other revenue	2.9	0.8	2.3	0.1	20.9	0.0	(0.9)	26.1
Total gross operating revenue	**93.0**	**173.9**	**101.4**	**8.0**	**964.5**	**0.9**	**(129.4)**	**1,212.3**

Mention should be made that, effective from 1 January 2018, the Group adopted IFRS 15 - *Revenue from contracts with customers*, which resulted in a different presentation of costs and revenue, as a result of the valuation of the principal/agent role, with no impact on the result for the period or on equity at 1 January 2018.

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

As a result, revenue in 2018 cannot be directly compared with revenue in 2017. The application of IFRS 15 resulted in: (i) an increase in net revenue of Euro 106.8 million and in (ii) a corresponding increase in costs for the consumption of raw materials, consumables and supplies (Euro 19.7 million) and services (Euro 87.1 million).

The main **consolidated statement of financial position figures** at 31 December 2018 can be compared with the situation at 31 December 2017:

(€ millions)	31/12/2018	31/12/2017
Statement of financial position		
Property, plant and equipment	89.6	97.7
Intangible assets	994.0	1,008.2
Financial assets	58.4	65.0
Deferred tax assets	103.0	113.3
Net working capital	(54.2)	(87.1)
Total assets	**1,190.8**	**1,197.1**
Non-current borrowings and provisions	113.2	121.9
Deferred tax provision	165.3	169.7
(Net financial position)/Net debt	188.6	263.1
Equity attributable to the owners of the parent	436.8	391.6
Equity attributable to non-controlling interests	286.9	250.8
Total equity and liabilities	**1,190.8**	**1,197.1**

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

In 2018, as part of the share buy-back plans, no treasury shares were sold or purchased. At 31 December 2018, Cairo Communication held a total of no. 779 treasury shares, or 0.001% of the share capital, subject to art. 2357-ter of the Italian Civil Code.

The consolidated **net financial position** at 31 December 2018, versus the situation at 31 December 2017, can be summarized as follows:

Net financial debt (€ millions)	**31/12/2018**	**31/12/2017**	**Change**
Cash and cash equivalents	56.2	128.1	(71.9)
Other current financial assets and financial receivables	1.7	0.9	0.8
Current financial assets (liabilities) from derivative instruments	(0.1)	(1.0)	0.9
Current financial payables	(63.8)	(72.0)	8.2
Current net financial position (net financial debt)	**(6.0)**	**56.0**	**(62.0)**
Non-current financial payables	(181.6)	(319.0)	137.3
Non-current financial assets (liabilities) from derivative instruments	(1.0)	(0.1)	(0.9)
Non-current net financial position (net financial debt)	**(182.6)**	**(319.1)**	**136.5**
Net financial position (Net financial debt) from continuing operations	**(188.6)**	**(263.1)**	**74.5**

At 31 December 2018, the net financial debt of RCS amounted to Euro 187.6 million (Euro 287.4 million at 31 December 2017).

The improvement in the net financial debt versus 31 December 2017 of Euro 74.5 million is attributable mainly to cash flows from ordinary operations, comprising the dynamics of current assets, offset by the distribution of dividends approved by the Shareholders' Meeting held on 27 April 2018 for a total of Euro 13.4 million, and by outlays for capital expenditure (Euro 31.9 million) and net non-recurring expense (Euro 6.4 million).

As described in greater detail in Note 27 *"Non-current financial payables and liabilities"* in the consolidated financial statements, on 10 October, RCS signed an amending agreement to the existing loan agreement with the Pool of Banks, whose main terms are: (i) a 12-month extension of the duration of the loan, with a resulting postponement of the final maturity date from 31 December 2022 to 31 December 2023 and (ii) a reduction in the spread applied to both credit facilities as from 10 October 2018, and subsequently recalculated from time to time using a margin grid, based on the leverage ratio (NFD/EBITDA), which is more favourable than the one envisaged in the existing loan agreement.

To analyze the major financial indicators, the consolidated asset structure at 31 December 2018 can be examined using a reclassified statement showing increasing liquidity/settlement:

(€ millions)	31/12/2018	31/12/2017
Non-current assets		
Property, plant and equipment and intangible assets	1,083.6	1,105.9
Financial assets	43.4	49.7
Other non-current assets	15.0	15.3
Deferred tax assets	103.0	113.3
Total non-current assets	**1,245.0**	**1,284.2**
Current assets		
Inventory	22.9	18.2
Trade receivables (unavailable liquid funds)	268.3	293.2
Other unavailable liquid funds	53.9	57.6
Total operating working capital	**345.1**	**369.0**
Other current financial assets	1.7	0.9
Available liquid funds	56.2	128.1
Total current assets	**403.0**	**498.0**
Invested capital	**1,648.0**	**1,782.2**
Equity attributable to the owners of the parent	**723.7**	**642.4**
Consolidated liabilities		
Non-current post-employment benefits and provisions for risks and charges	66.1	66.5
Deferred tax liabilities	165.3	169.7
Other non-current liabilities	0.9	0.9
Non-current borrowing liabilities	182.6	319.1
Total consolidated liabilities	**414.9**	**556.2**
Current liabilities		
Current portion of provisions for risks and charges	46.2	54.4
Current operating liabilities	399.3	456.2
Current borrowing liabilities	63.9	73.0
Total current liabilities	**509.4**	**583.6**
Financing capital	**1,648.0**	**1,782.2**
Profit	60.3	52.0
Operating profit (EBIT)	127.3	102.7
Sales	1,224.1	1,109.4

The table below shows the analysis of the operating results and cash flows of the Group through the main key performance indicators:

(€ millions)	Description	31/12/2018	31/12/2017
Solvency indicators			
Current assets less current liabilities margin	Current assets-current liabilities	(106.4)	(85.6)
Current assets less current liabilities ratio	Current assets/current liabilities	0.8	0.9
Treasury margin	(Unavailable liquid funds + available liquid funds)-current liabilities	(129.3)	(103.8)
Treasury ratio	(Unavailable liquid funds + available liquid funds)/current liabilities	0.7	0.8
Non-current asset financing indicators			
Own funds less fixed assets margin	Own funds – non-current assets	(521.3)	(641.8)
Own funds less non-current assets ratio	Equity/non-current assets	0.6	0.5
Own funds plus non-current liabilities less non-current assets margin	(Own funds+ non-current liabilities) – non-current assets	(289.0)	(404.7)
Own funds plus non-current liabilities less non-current assets ratio	(Own funds+ non-current liabilities)/non-current assets	0.8	0.7
Financing structure indicators			
Total liabilities-to-equity ratio	(non-current + current liab.)/Own funds	1.3	1.8
Financing debt ratio	Third-party funds/Own funds	0.3	0.6
Current operating assets - current operating liabilities		(54.2)	(87.2)
Profitability indicators			
ROE	Profit/Own funds	8.3%	8.1%
ROE current operations	Profit curr. op./Own funds	8.2%	7.9%
ROI	Operating profit/ (Inv. op. capital – op. liabilities)	10.6%	8.1%
ROI current operations	Operating profit current operations/ (Inv. op. capital – op. liabilities)	10.7%	8.2%
Other indicators			
Receivables turnover		66	79

Solvency indicators (liquidity), which represent the ability to maintain short-term financial stability, namely to meet short-term outflows (current liabilities) with existing cash (available liquid funds) and short-term inflows (unavailable liquid funds), show that current liabilities are higher than current assets.

In this regard, at 31 December 2018:

- only approximately Euro 40 million out of a total of Euro 140 million of the medium-long term revolving loan granted by Banca Intesa to Cairo Communication had been drawn down at 31 December 2018 versus 78.2 million at 31 December 2017;
- only Euro 45 million out of a total of Euro 125 million of the revolving line set out in the RCS loan agreement had been drawn down at 31 December 2018;
- the publishing companies have a negative net working capital (current assets net of current liabilities, not including financial assets or liabilities) since a portion of the trade receivables (those from sales in the publishing segment) are transformed into cash more quickly than average supplier payment terms;
- the Group attempts to ensure that an appropriate ability to generate cash is maintained, even under the current market conditions.

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 stability in the medium/long term, which depends on:

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

An analysis of the indicators shows that own funds cover the funding of approximately 60% of the fixed assets.

With regard to 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.

Cairo Communication S.p.A. - Parent performance

The main **income statement figures of Cairo Communication S.p.A.** in 2018 can be compared as follows versus those in 2017:

(€ millions)	2018	2017
Gross operating revenue	6.9	105.5
Advertising agency discounts	-	-
Net operating revenue	**6.9**	**105.5**
Other revenue and income	0.7	1.2
Total revenue	**7.6**	**106.7**
Production cost	(4.3)	(103.5)
Personnel expense	(3.2)	(3.2)
Gross operating profit (EBITDA)	**0.1**	**-**
Amortization, depreciation, provisions and impairment losses	(0.2)	(0.3)
EBIT	**(0.1)**	**(0.3)**
Net financial income	(0.5)	(0.5)
Other income (expense) from financial assets/liabilities	7.1	8.3
Profit (loss) before tax	**6.5**	**7.5**
Income tax	(0.1)	(0.2)
Profit for the year	**6.4**	**7.3**

With the application of the new IFRS 15, in connection to the advertising sub-concession contracts in place with the subsidiary Cairo Pubblicità, Cairo Communication was recognized the role of agent; revenue, therefore, was netted to express for these activities only the component realized by the Company, with a reduction in revenue for the year of Euro 105.4 million and a corresponding decrease in cost of services.

On a like-for-like basis, excluding the effects of the adoption of the new accounting standard from the comparison with the 2017 figures, gross operating revenue would amount to Euro 111.9 million, with an increase in revenue by Euro 6.4 million, due in particular to the positive trend in TV advertising sales.

In 2018, Cairo Communication continued to operate in TV advertising sales (La7, La7d and theme channels Cartoon Network and Boomerang) 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. In the current year, as a result of the first-time application of IFRS 15, revenue from sub-concession fees charged to the subsidiary Cairo Pubblicità S.p.A. are shown net of the fees paid back to the publishers who own the media.

In 2018, gross operating profit (EBITDA) came to a positive Euro 0.1 million (breakeven in 2017) and operating result (EBIT) to a negative Euro 0.1 million (a negative Euro 0.3 million in 2017). Profit was approximately Euro 6.4 million (Euro 7.3 million in 2017).

“Other income (expense) from financial assets and liabilities" includes dividends of Euro 7.1 million approved by the subsidiary Cairo Editore. In 2017, the item included the dividends approved by Cairo Editore, amounting to Euro 8.5 million.

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

(€ millions)	**31/12/2018**	**31/12/2017**
Statement of comprehensive income of the Parent		
Profit	6.4	7.3
Other non-reclassifiable items of the comprehensive income statement		
Actuarial profit (loss) from defined benefit plans	-	-
Tax effect	-	-
Total comprehensive income	**6.4**	**7.3**

The main **statement of financial position figures** of Cairo Communication S.p.A. at 31 December 2018 can be compared with the situation at 31 December 2017:

(€ millions)	**31/12/2018**	**31/12/2017**
Statement of financial position		
Property, plant and equipment	0.3	0.3
Intangible assets	0.2	0.2
Financial assets	328.9	328.9
Other non-current financial assets	24.2	16.8
Net trade working capital	(24.7)	(14.3)
Total assets	**328.9**	**331.9**
Non-current borrowings and provisions	1.6	1.5
(Net financial position)/Net debt	75.7	71.6
Equity	251.6	258.8
TOTAL EQUITY AND LIABILITIES	**328.9**	**331.9**

Mention should be made that, at their Meeting on 27 April 2018, the shareholders approved the distribution of a dividend of Euro 0.10 per share, inclusive of tax, for a total of Euro 13.4 million, with coupon detachment date on 14 May 2018.

The **net financial position** of the Parent at 31 December 2018, versus the situation at 31 December 2017, is summarized as follows:

(€ millions)	31/12/2018	31/12/2017	Change
Cash and cash equivalents	4.3	6.6	(2.3)
Current financial payables to subsidiaries	(40.0)	-	(40.0)
Non-current financial payables	(40.0)	(78.2)	38.2
Total	**(75.7)**	**(71.6)**	**(4.1)**

A total amount of Euro 140 million in the non-current financial payables refers to the revolving facility, with approximately Euro 40 million drawn down, to fund both the cash component of the offer for the acquisition of the control of RCS, and for other general corporate purposes. Short-term financial payables to subsidiaries are attributable to the short-term interest-bearing liquidity deposit agreement signed with La7 S.p.A. (Euro 40 million).

Statement of reconciliation of Parent 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:

(€ millions)	Equity 31/12/2018	Profit for 2018
Financial statements of Cairo Communication S.p.A.	**251.5**	**6.4**
Elimination of the carrying amount of consolidated equity investments:		
Difference between carrying amount of investments and their equity value	(59.4)	
Effects of the purchase price allocation of RCS S.p.A.	153.0	(1)
Effects of the purchase price allocation of La7 S.p.A.	(11.4)	4.2
Share in consolidated companies' profit net of investment impairment losses		57.6
Allocation of consolidation differences		
RCS goodwill net of tax effects	114.2	
Other goodwill	7.2	
Elimination of intra-group profits net of income tax	(18.4)	0.2
Elimination of intra-group dividends		(7.1)
Consolidated financial statements of Cairo Communication	**436.8**	**60.3**

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

MAGAZINE PUBLISHING CAIRO EDITORE

Cairo Editore - Cairo Publishing

Cairo Editore operates in the magazine publishing field through (i) weeklies "*Settimanale DIPIU'*", *"DIPIU' TV"*, and bi-weekly supplements *"Settimanale DIPIU' e DIPIU'TV Cucina"* and *"Settimanale DIPIU' e DIPIU'TV Stellare"*, *"Diva e Donna"* and the fortnightly "*Diva e Donna Cucina"*, *"TV Mia"*, *"Settimanale Nuovo"*, *"F"*, *"Settimanale Giallo"* and *"NuovoTV"*, *"Nuovo e Nuovo TV Cucina"*, *"Enigmistica Più" and* "*Enigmistica Mia*", (ii) monthlies *"For Men Magazine"* and *"Natural Style"* and (iii) through its Editoriale Giorgio Mondadori division with monthlies *"Bell'Italia"*, *"Bell'Europa"*, *"In Viaggio"*, *"Airone"*, *"Gardenia"*, *"Arte"* and *"Antiquariato"*.

The results achieved by the Cairo Editore publishing segment in 2018 can be analyzed as follows:

Publishing Cairo Editore (€ millions)	**2018**	**2017**
Operating revenue	111.4	90.1
Other income	2.4	2.9
Change in inventory	-	-
Total revenue	**113.8**	**93.0**
Production cost	(85.8)	(61.1)
Personnel expense	(19.5)	(19.7)
Gross operating profit (EBITDA)	**8.5**	**12.2**
Amortization, depreciation, provisions and impairment losses	(1.0)	(1.1)
EBIT	**7.5**	**11.1**
Other income (expense) from financial assets/liabilities	-	-
Net financial income	-	-
Profit (loss) before tax	**7.5**	**11.1**
Income tax	(1.6)	(3.4)
Profit for the year	**6.0**	**7.7**

In 2018, Cairo Editore worked on improving the levels of efficiency reached in containing production, publishing and distribution costs, and continued to achieve positive results. Gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro 8.5 million and approximately Euro 7.5 million (Euro 12.2 million and Euro 11.1 million in 2017) and were impacted by the launch costs of approximately Euro 0.5 million for "*Enigmistica Mia*".

Mention should be made that if the new IFRS 15, which came into force as of 1 January 2018, had not been applied, consolidated gross operating revenue in the Cairo Editore magazine publishing segment in 2018 would amount to Euro 88.7 million instead of Euro 113.8 million. The difference of Euro 25.1 million is explained by the presentation of publishing revenue gross of the distribution margin, with a corresponding and equivalent increase in the cost of services.

In 2018, Cairo Publisher launched:

- in June *"Diva e Donna Cucina", a* new fortnightly magazine sold optionally with *"Diva e Donna",* which features cooking and recipes, placing emphasis on health and wellbeing at the table;
- in July "*Enigmistica Mia*", a new weekly packed with puzzles, games and pastimes that debuted on newsstands at the launch price of 50 cents, which complements "*Enigmistica Più*" on newsstands from April 2016.

The Group weeklies reported high circulation results, with an average ADS weekly circulation in the January-December period of 2018 of 427,540 copies for “Settimanale DIPIU”, 218,137 copies for “DIPIU’ TV”, 88,492 copies for “Settimanale DIPIU’ e DIPIU’TV Cucina”, 173,192 copies for “Diva e Donna”, 210,006 copies for “Settimanale Nuovo”, 112,404 copies for “F”, 95,273 copies for “TVMia”, 75,446 copies for “Settimanale Giallo”, 91,132 copies for “NuovoTV” and 46,585 copies for “Nuovo e Nuovo TV Cucina”, reaching a total of approximately 1.5 million average weekly copies sold, and making the Group the leading publisher in copies of weeklies sold at newsstands, with an approximately 30% market share. Including the average sales of titles out of the ADS survey (average copies sold of *“Enigmistica Più”* and “*Enigmistica Mia*”), average weekly copies sold were approximately 1.6 million.

The tables below analyze the circulation trend of weeklies in 2018 versus 2017:

Weeklies	**Dipiu'**	**Dipiu' TV**	**Dipiu' e Dipiù TV Cucina**	**Diva e donna**	**TV Mia**	**Nuovo**	**Nuovo TV**	**Nuovo e Nuovo TV Cucina**	**F**	**Giallo**
ADS 2018 average	427,540	218,137	88,492	173,192	95,273	210,006	91,132	46,585	112,404	75,446
ADS 2017 average	453,626	246,552	114,928	169,658	108,303	212,377	98,050	56,804	116,607	86,039

Monthlies	For Men Magazine	Natural Style	Bell'Italia	Bell'Europa	In Viaggio	Airone	Gardenia
ADS average 2018	31,348	41,886	45,708	19,938	18,053	42,454	50,120
ADS average 2017	34,683	44,841	46,087	19,299	20,076	45,902	52,982

In 2019, Cairo Editore's strategy will continue to focus on the following elements: (i) the pivotal importance of the quality of products, (ii) supporting the circulation levels of its own publications, including through investments in print runs, communication and quality of editorial content, (iii) attention to costs in general, and production costs in particular, with a view towards continuous improvement of industrial, publishing and procurement conditions and processes, and (iv) continued extension and increase in quality of the product portfolio in order to capture the market segments with greater potential.

ADVERTISING

Looking at the advertising segment, in 2018 Cairo Communication continued to operate as advertising broker - with its subsidiary Cairo Pubblicità - selling space in the print media for Cairo Editore and for Editoriale Genesis ("*Prima Comunicazione*" and "*Uomini e Comunicazione*"), for the sale of advertising space on TV for La7 and La7d, for Turner Broadcasting (*Cartoon Network* and *Boomerang*) and for La Presse (*Torino Channel*), on the Internet (*Cartoon Network.it*) and for the sale of stadium signage and space at the Olimpico in Turin for Torino FC. Starting from December 2018, advertising sales began on the information site *open.online.*

The results achieved by Advertising in 2018 can be analyzed as follows:

Advertising (€ millions)	**2018**	**2017**
Gross operating revenue	183.4	173.1
Advertising agency discounts	(25.6)	(24.4)
Net operating revenue	**157.8**	**148.7**
Other income	0.6	0.8
Change in inventory	-	-
Total revenue	**158.4**	**149.5**
Production cost	(148.3)	(140.0)
Personnel expense	(9.9)	(9.1)
Gross operating profit (EBITDA)	**0.2**	**0.4**
Amortization, depreciation, provisions and impairment losses	(0.3)	(0.4)
EBIT	**(0.1)**	**0.0**
Other income (expense) from financial assets/liabilities	-	-
Net financial income	(0.5)	(0.4)
Profit (loss) before tax	**(0.7)**	**(0.4)**
Income tax	(0.1)	(0.4)
Non-controlling interests	-	-
Profit (loss) for the year	**(0.8)**	**(0.8)**

In 2018, gross advertising sales on La7 and La7d channels amounted to Euro 149.2 million (Euro 137.8 million in 2017). Advertising sales on Cairo Editore titles amounted to Euro 25.5 million (Euro 26.5 million in 2017).

Gross operating profit (EBITDA) and operating profit (EBIT) in the advertising segment came to Euro 0.2 million and Euro -0.1 million (Euro 0.4 million and breakeven in 2017).

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.r.l. as of 30 April 2013, with the upstream integration of its concessionaire business for the sale of advertising space, diversifying its publishing activities previously focused on magazines.

At the acquisition date, the financial situation of La7 had called for the implementation of a restructuring plan aimed at reorganizing and streamlining the corporate structure and at curbing costs, while retaining the high quality levels of the programming. Starting from May 2013, the Group began to implement its own plan to restructure the company, achieving, as early as the May-December eight-month period of 2013, a positive gross operating profit (EBITDA),

strengthening in the years that followed the results of the cost rationalization measures implemented.

The results achieved by TV Publishing (La7) in 2018 can be analyzed as follows:

TV publishing (€ millions)	**2018**	**2017**
Gross operating revenue	106.8	99.1
Other income	4.7	2.3
Change in inventory	-	-
Total revenue	**111.5**	**101.4**
Production cost	(67.5)	(60.0)
Personnel expense	(35.5)	(34.4)
Gross operating profit (EBITDA)	**8.6**	**7.0**
Amortization, depreciation, provisions and impairment losses	(9.8)	(10.1)
EBIT	**(1.2)**	**(3.0)**
Other income (expense) from financial assets/liabilities	-	-
Net financial income	0.1	0.2
Profit (loss) before tax	**(1.1)**	**(2.9)**
Income tax	1.5	2.1
Non-controlling interests	-	-
Profit for the year	**0.4**	**(0.8)**

In 2018, the TV publishing segment (La7) achieved gross operating profit (EBITDA) of approximately Euro 8.6 million (Euro 7 million in 2017). The result in the period under review was impacted also by increased programming costs of approximately Euro 3.8 million to improve programming quality, which contributed to the growth of La7's all-day share by 28.1% and by 36% in prime time. There is usually a certain time gap between audience trends and advertising sales results. In second half 2018, following the outstanding audience results of the first half of the year, total advertising sales on La7 and La7d accelerated their growth trend (+17%).

Operating profit (EBIT) came to approximately Euro -1.2 million and benefited in the consolidated financial statements, with respect to the separate financial statements of La7 S.p.A., from lower amortization and depreciation of Euro 1.6 million, due to the write-down of tangible and intangible assets made in 2013 in the purchase price allocation of the investment in La7. In 2017, operating profit (EBIT) had come to Euro 3 million, benefiting in the consolidated financial statements from lower amortization and depreciation of Euro 3.3 million.

In 2018, La7's average all-day share was 3.69%, up by 28.1% versus 2017, and 4.87% in prime time (from 8:30 PM to 10:30 PM), rising sharply by 36% versus 2017, with a high-quality target audience. Thanks to these results, in 2018 La7 is the generalist channel that reported the strongest growth in audience on the Italian television scene. La7d's share was 0.52% (0.41% in

prime time). The channel's news and discussion programmes all continued to show remarkable and increasingly strong audience figures: *Otto e Mezzo* with a 7.1% average share from Monday to Friday (+23.4% versus 2017), *TgLa7 edizione delle 20* 5.8% from Monday to Friday (+8.4% versus 2017), *diMartedì* 7.4% (+47.6% versus 2017), *Piazzapulita* 5.9% (+36.4% versus 2017), *Propaganda Live* 4.6% (+67% versus 2017), *Non è l'Arena* 7% (+8.2% versus 2017), *Omnibus Dibattito* 4.6% (+22% versus 2017), *Coffee Break* 4.9% (+24.4% versus 2017), *L'Aria che tira* 6.85% (+31% versus 2017), *Tagadà* 3.6% (+47.2% versus 2017), *In Onda* 5.1% (+24.8% versus 2017), the *Maratone Mentana* (14.27% share the 4 March marathon) and the election specials.

In 2018, La7 was firmly the sixth national prime time network for average listeners, and achieved in the entire morning slot (07.00-12.00) high ratings with an average share of 4.52%, up by 21.8% in the same slot in 2017, ranking as fourth generalist network in the year.

On the web front too, remarkable results were achieved, with over 26 million (+51% versus 2017) average unique browsers on La7 sites (*La7.it*, *TGla7.it*, *Sedanoallegro.it*) and the *TGla7* app, and 415 million views of its programmes on its digital platforms and on YouTube channels (+76% versus 2017).

Revenue development initiatives are planned in 2019 for La7, focused on (i) creating new programmes, (ii) maximizing audience potential on the La7d channel, (iii) the possible launch of new channels and strengthening digital presence.

RCS

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

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

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

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

RCS is also marginally active in the Pay TV market in Italy, through its subsidiary, Digicast S.p.A., with the satellite TV channels *Lei*, *Dove, Caccia e Pesca* and also publishes the web TVs of *Corriere della Sera* and *La Gazzetta dello Sport.*

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

RCS also organizes, through RCS Sport, major world sporting events (such as *Giro d'Italia*, the *Dubai Tour*, the *Milano City Marathon* and the *Color Run*), and is well-positioned as a partner in the creation and organization of events through RCS Live. In Spain, through its subsidiary Last Lap, RCS is involved in the organization of mass events.

Lastly, mention should be made of the debut in April 2018 of *Solferino - i libri del Corriere della Sera* and, from March 2019, of RCS Academy, the RCS Group's new Business School, which focuses on six areas of specialization offering an innovative and qualified programme: Journalism and Communication; Economy, Innovation and Marketing; Art, Culture and Tourism, Luxury, Fashion and Design, Food & Beverage, Sport.

RCS generated negative results prior to 2016, and has embarked on an operational restructuring process to restore profitability. In 2016, profit had amounted to Euro 3.5 million[4], marking a return to positive territory by the RCS Group (the first time since 2010), while in 2017 it had amounted to Euro 71.1 million[4].

The results achieved by the RCS segment in 2018 can be analyzed as follows:

[4] RCS 2017 Annual Report

RCS (€ millions)	2018	2017
Gross operating revenue	1,025.6	943.6
Advertising agency discounts	(50.0)	(52.6)
Net operating revenue	**975.6**	**891.0**
Change in inventory	0.3	(0.3)
Other revenue and income	17.2	20.9
Total revenue	**993.1**	**911.6**
Production cost	(569.1)	(505.4)
Personnel expense	(262.9)	(258.1)
Income (expense) from equity-accounted investees	2.5	2.1
Non-recurring income and expense	0.2	(1.8)
Gross operating profit (EBITDA)	**163.8**	**148.4**
Amortization, depreciation, provisions and impairment losses	(42.2)	(52.3)
EBIT	**121.6**	**96.0**
Other income (expense) from financial assets/liabilities	(0.9)	16.2
Net financial income	(14.1)	(24.4)
Profit (loss) before tax	**106.6**	**87.8**
Income tax	(14.6)	(9.4)
Non-controlling interests	(37.1)	(31.3)
Profit attributable to the owners of the parent	**54.9**	**47.1**

In 2018, in a persistently challenging market marked by uncertainty, RCS achieved - in the consolidated financial statements of Cairo Communication - gross operating profit (EBITDA) of approximately Euro 163.8 million[5] and operating profit (EBIT) of Euro 121.6 million, up strongly by Euro 15.4 million and Euro 25.6 million versus 2017, in line with 2018 performance targets, thanks mainly to the strong commitment towards cutting costs and pursuing opportunities to increase and develop revenue.

In 2018, net consolidated revenue generated by RCS amounted to approximately Euro 975.6 million, up by an overall Euro 79.8 million versus 2017. Excluding the effects of the adoption of the new IFRS 15 from the comparison with the 2017 figures, RCS's total revenue would increase by Euro 3.4 million. Specifically, RCS revenue from digital activities rose by 12.6% versus 2017

[5] Mention should be made that RCS adopts a different definition of EBITDA from the one used by the Cairo Communication Group, as indicated in the section below "Alternative Performance Measures". As a result of these differences - relating to allocations to the provisions for risks and charges and the provision for bad debts, which in 2018 totaled Euro 8.4 million - EBITDA reported in the RCS 2018 Annual Report, approved on 18 March 2019, amounted to Euro 155.3 million.

to reach Euro 163 million, propelled also by the growth in digital advertising revenue, which reached approximately Euro 126 million in 2018 (+15.1 million versus 2017).

The difference of Euro 76.4 million is due mainly to the presentation of publishing revenue gross of the distribution margin and the recognition in revenue only of the margin earned on activities for sporting events abroad, and on a number of advertising concession contracts, resulting in a corresponding increase in costs.

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

In Italy, in 2018, *Corriere della Sera* recorded an average of 286 thousand copies distributed, including average digital copies (Internal Source), while *La Gazzetta dello Sport* recorded an average of 167 thousand copies distributed, including average digital copies (Internal Source). The circulation of the *Corriere della Sera* and *La Gazzetta dello Sport* publications at newsstands (channels provided for by law) was down by -2.7% and -6.4% respectively versus 2017, while the relevant market fell by -7.6% and -10.3% respectively (*ADS January-December 2018*).

The main digital performance indicators show that the average monthly unique browsers of *corriere.it* in 2018 reached 48.9 million (+4% versus 2017), while its mobile version *Corriere Mobile* recorded 29.5 million average monthly unique browsers (+17.1% versus 2017) (all data *Adobe Analytics*). At December 2018, the total active customer base for *Corriere della Sera* was 135 thousand subscribers.

Gazzetta.it recorded 34.3 million average monthly unique browsers (+17.9% versus 2017), while *Gazzetta Mobile* reached 22.5 million average monthly unique browsers (+45.8% versus 2017) (all data *Adobe Analytics*).

The average daily circulation of *El Mundo* and *Expansion* (including digital copies) in 2018 amounted to 111 thousand and 34 thousand copies, respectively; copies of the sports daily *Marca* amounted to approximately 121 thousand, including digital copies (Internal Source).

On the web, average monthly unique browsers (*Omniture*) of *elmundo.es* reached an average of 54.3 million in 2018 (+9.1% versus 2017). At end December 2018, *marca.com* reached 57.7 million average monthly unique browsers (+29.4% versus 2017). The new *Marca Claro* portal, launched in 2018 also in Colombia in January and then in Argentina, has brought a significant growth in average monthly unique users of traffic in Latin America (+65%). Average monthly

unique browsers of *expansión.com* were 9.9 million in 2018 (-5.4% versus 2017). All three sites reported a sharp rise in accesses through mobile devices, which saw significant increases.

At 31 December 2018, the net financial debt of RCS amounted to Euro 187.6 million, improving by approximately Euro 99.8 million versus 31 December 2017, thanks mainly to the positive cash flows of Euro 118.7 million from ordinary operations, only partly offset by outlays for capital expenditure and net non-recurring expense (*Management Reporting*).

As described in greater detail in Note 27 *"Non-current financial payables and liabilities"* in the consolidated financial statements, on 10 October, RCS signed the Amending Agreement to the existing Loan Agreement with the Pool of Banks, whose main terms are: (i) a 12-month extension of the duration of the loan, with a resulting postponement of the final maturity date from 31 December 2022 to 31 December 2023 and (ii) a reduction in the spread applied to both credit facilities as from 10 October 2018, and subsequently recalculated from time to time using a margin grid, based on the leverage ratio (NFD/EBITDA), which is more favourable than the one envisaged in the existing loan agreement.

RCS is currently focusing on enhancing the value of editorial content, developing existing brands, and launching new projects, with a constant eye on cutting costs.

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

- 23 February 2018 saw the launch of *Corriere Innovazione*, the new magazine that explores the varied facets of innovation, touching science, technology, culture, research and development, offering different perspectives in the digital and paper domains and a generous calendar of local-based dedicated events;
- 19 April 2018 saw the launch of *Solferino - I Libri del Corriere della Sera*, which deals with fiction, non-fiction, poetry and children's books, both Italian and foreign;
- 18 May 2018 saw the launch of *Liberi Tutti*, the new free weekly supplement of *Corriere della Sera*, dedicated to the pleasure of living. The Friday issue complements the offer of the 6 *Corriere della Sera* supplements out on newsstands on the remaining days of the week;
- July 2018 saw the revamping of *laLettura, Corriere della Sera*'s cultural supplement, now richer, with up to 64 pages as well as new room for fiction and a section on science;
- 19 September 2018 saw the unveiling of *COOK, Corriere della Sera*'s new monthly insert on the world of cooking and food, which covers these topics in an unprecedented way, through original pictures, photo reports and superb storytellers;

- September 2018 also saw the content revamping of women's weekly *Io Donna*, out now with a larger size and better paper to add greater value to images and graphics;
- 10 September saw the launch of the new six-monthly *Style Dresscode,* covering the fashion trends of the season, followed on 3 October by the debut on newsstands of the new *Vivimilano*;
- lastly, 19 November saw the launch of the new insert on the job world, which complements the wealth of information on the professional world, together with the content of *Trovolavoro.it*, of *Nuvola del Lavoro* and the Tuesday pages.

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

With regard to *La Gazzetta dello Sport,* in 2018:

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

In Spain:

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

From 11 to 14 October 2018, with Regione Trentino, under the patronage of the Italian Olympic Committee and the Italian Paralympic Committee, *Il Festival dello Sport* was organized in Trento, staging over 100 events in 15 different locations and drawing more than 50 thousand people.

NETWORK OPERATOR (CAIRO NETWORK)

The Group company Cairo Network took part in 2014 in the tender procedure opened by the Ministry of Economic Development for the assignment of rights to use TV frequencies for digital terrestrial broadcasting systems, acquiring the rights to use a lot of frequencies (“mux") for a

period of 20 years, and entering in January 2015 with EI Towers S.p.A. into an agreement for the realization and subsequent long-term technical management in full service mode (hospitality, service and maintenance, use of broadcasting infrastructure, etc.) of the electronic communications network for the broadcasting of audiovisual media services on frequencies allocated. The mux covers at least 94% of the national population, providing high-quality service levels.

January 2017 marked the start of the broadcasting of La7 channels on the mux. The remaining capacity could be used to broadcast new channels if the Cairo Communication Group were to launch any, and to provide third parties with broadcasting capacity.

IL TROVATORE

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

Alternative performance measures

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

The alternative measures are:

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

Result from continuing operations, before tax

+/- Net finance income

+/- Other income (expense) from financial assets and liabilities

EBIT- Operating result

+ Amortization & depreciation

+ Bad debt impairment losses

+ Provisions for risks

+ Income (expense) on equity-accounted investees[6]

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

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

RCS defines EBITDA as operating profit (EBIT) before depreciation, amortization and impairment losses on fixed assets, and also includes income and expense from equity-accounted investees.

The main differences between the two definitions of EBITDA lie in the provisions for risks and in the allowance for impairment, included in the EBITDA definition adopted by RCS, while they are excluded from the EBITDA definition adopted by Cairo Communication. Owing to the differences between EBITDA definitions adopted, in this Annual Report at 31 December 2018, consolidated EBITDA was determined consistently with the definition adopted by the Parent Cairo Communication.

Consolidated gross revenue: for a more detailed view, and in consideration of the specific features of the segment, operating revenue - for advertising revenue - includes gross operating revenue, advertising agency discounts and net operating revenue. Consolidated gross revenue is equal to the sum of gross operating revenue and other revenue and income.

The Cairo Communication Group also considers the **net financial position** (**net financial debt**) as a valid measure of the Group's financial structure determined as a result of current and non-current financial liabilities, net of cash and cash equivalents and current financial assets.

Transactions with parents, subsidiaries and associates and subject to the control of the parents

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

[6] Included following consolidation of RCS

Information on transactions with related parties is disclosed in Note 37 to the consolidated financial statements and in Note 29 to the separate financial statements.

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

Risks associated with the general economic climate

The operating results, financial position 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.

With the acquisition of the control of RCS, the Group activities are carried out mainly in Italy and Spain. Therefore, Group profits are exposed to risks caused by the economic cycle of these two countries.

In 2018, the general economic and financial climate continued to be marked by uncertainty.

The Italian economy in 2018 confirmed its growth trend, but slowed down starting from the third quarter, showing an estimated increase in GDP of 0.9% (*ISTAT*), lower than in 2017 and the European average.

In Spain, a market of operation for RCS through its subsidiary Unidad Editorial, GDP increased by 2.5% in 2018, slightly lower than in 2017 (3.1%), confirming the upswing of Gross Domestic Product for the fourth consecutive year (*INE*).

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 a series of measures to streamline costs and increase efficiency and effectiveness of the production, publishing and distribution processes - starting in previous periods and also continuing in 2018.

Risks associated with advertising and publishing market trends

The persisting short and medium-term economic uncertainty continued to impact negatively on the daily newspaper and magazine advertising market, slowing the pace of their sales.

In Italy, in 2018, the advertising market basically confirmed the figures of 2017, with magazine and newspaper advertising markets down by 6.2% and 8.2%, while TV and online advertising grew by 0.6% and 4.5% versus 2017 (*AC Nielsen*).

The Spanish advertising sales market increased by 1.3% versus 2017 (*i2p, Arce Media*). Specifically, the daily newspaper and magazine market fell by 6.8% and 10%, respectively, versus 2017. Advertising sales on the Internet (excluding social media) drove the market and increased by 14.8%.

Regarding the advertising market, print media are forecast to fall further in 2019 in Italy (*Nielsen*) and in Spain (*I2P Arce Media*). Internet, as well as TV, will continue to grow both in Italy and Spain.

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

In terms of circulation, in Italy the unfavourable trend in the print products market also continued in 2018. Specifically, the main national generalist daily newspapers (with a circulation above 50 thousand copies) reported a 5.6% drop in circulation in 2018 (including digital copies), while the main sports newspapers fell by 10.3% (including digital copies) versus 2017 (*ADS January-December 2018*).

As for magazines, looking at the circulation market for weekly titles declared in ADS in 2018, the market was down overall by approximately 8.5% (-5.3% including digital copies) (Internal source based on ADS figures).

The same trend was seen in Spain, with daily newspaper sales down versus 2017. Cumulative figures on circulation at December 2018 (*OJD*) regarding general information newspapers (generalist newspapers with a circulation above 60 thousand copies), business newspapers and sports newspapers indicate a drop of 11.2%, 5.2% and 10.4%, respectively.

Advertising

The Cairo Communication Group is significantly exposed to advertising revenue trends, which are cyclical and directly related to general economic trends. Advertising sales are currently the main source of revenue for the TV publishing segment. La7 boasts an exceptional audience profile, particularly appealing in terms of advertising.

Considering the Cairo Editore magazine publishing segment, advertising revenue in 2018 accounted for 23% - an extremely low percentage, therefore based to a lesser extent on the economic cycle - while the remaining 77% was generated by distribution and subscription revenue, demonstrating the great publishing strength of advertising products. With regard to Cairo Editore titles, the remarkable sales volumes achieved, both in absolute terms and versus Cairo’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.

With regard to RCS, advertising represents almost half of total revenue.

Persisting global economic uncertainty and stalling growth on the Italian market could impact on advertising market prospects. Against this backdrop, any difficulty in maintaining or increasing its advertising revenue could impact on Group prospects, activities, operating results and cash flows.

Additionally, also with regard to the advertising segment, in light of the developments taking place, growing importance is attached to the ability of the operators to develop digital products that allow the customization of advertising content and formats, user profiling, use of analytics/big data, and lead generation. With regard to the evolution of the market, any difficulty or delay in adapting to and meeting the new demand - also through the development of cutting-edge, intuitive and effective technological products - may impact negatively on the prospects, activities, operating and financial results of the Group.

Distribution

With regard to RCS, in addition to advertising, a large share of its other activities is represented by the sale of publishing products for a market that is undergoing a long-term phase of change in both Italy and Spain, marked by increasing integration with online communication systems. This transition could create tension between the circulation of print products and the concurrent need to adopt appropriate development strategies. The current market situation could amplify these aspects, as has already partly occurred. Against this backdrop, any difficulty in maintaining or increasing the circulation of its print products could impact on Group prospects, activities, operating results and cash flows.

As far as circulation is concerned, the features of Cairo Editore titles (in terms of price, percentage and importance of the newsstands channel, weight of the weeklies, etc.) and its strategy help maintain a strong lead over competitors in the current publishing market.

The ability of the Cairo Communication Group to increase its revenue and pursue its growth and development targets, and maintain adequate levels of profitability, also depends on how successful it is in putting its industrial strategy into place, which is also based on the continued expansion and enrichment of its product portfolio, including digital products, in order to capture market segments with greater potential.

Should the Cairo Communication Group fail to pursue this strategy, the activities and prospects of the Group may be negatively influenced, with consequent negative effects on its operating results, financial position and cash flows.

Risks associated with developments in the media segment

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

Specifically, Cairo Communication has identified the following main market trends:

- the demand for entertainment content continues to grow, both on traditional media and on the new platforms;
- in the generalist commercial television segment, the convergence of distribution platforms may, on the one hand, create development opportunities, but, on the other, carry a risk of audience fragmentation and an increase in the spectrum of platforms available for the use of TV content (satellite, Internet, mobile), engendering a more complex competitive environment;
- technological advancements have gradually changed the way content is used, towards more interactive/on demand media, enabling younger audiences to switch to more personalized user options.

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.

Against this backdrop, much importance is attached to:

- the ability to organize activities and adapt them to the increasingly rapid changes in markets and consumers,
- the ability to promptly develop cutting-edge, intuitive and effective technological products.

The current publishing scenario may lead to business combinations of publishing groups, with a consequent change in the market structures.

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

Privacy, data protection and cybersecurity

The innovation and enhancement of technological platforms and the organic development of digital products and customer centric strategies lead to increased risks related to cybersecurity and data protection. Privacy and personal data protection are becoming an increasingly important issue for the Group and, especially in the publishing industry, play a key role in the relationship of trust with readers and users. The issue requires stringent rules and policies, complemented with a corporate culture that needs to be aligned with the latest regulations that have extended and consolidated the protection of data subjects' rights.

The Group has procedures and tools in place to ensure compliance with the European Regulation on the protection of personal data EU 679/2016, with Legislative Decree 196/2003 as amended by Legislative Decree 101/2018 in Italy, and with Ley Orgánica 3/2018, de Protección de Datos Personales y Garantía de los Derechos Digitales in Spain.

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 they head and the programmes they host.

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

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

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 is linked to the results of distribution, audience ratings and/or sale of advertising space of the titles and TV programmes.

Brands play a crucial role in the development of Group activities for RCS too, including in the new digital environments. Events that harm the prestige of the brands could result in losses of profit and compromise the integration process with online communications systems.

Any difficulties that the Cairo Communication Group has in maintaining the value of its publication or programme brands, or any changes in the audience preferences, could reduce the appeal of Cairo Communication Group products, with resulting negative impacts on the operating results, financial position and cash flows of the Cairo Communication Group.

Risks associated with business with suppliers, clients and employees

A number of the production processes of the Cairo Communication Group, particularly magazine printing and use of broadcasting capacity in the TV publishing segment, are outsourced. The outsourcing of production processes requires close collaboration and careful monitoring of suppliers to ensure and preserve the quality of the products carried out with the help of external suppliers. This outsourcing may provide operational benefits in terms of flexibility, efficiency and cost reductions, but means that the Cairo Communication Group has to trust the ability of its suppliers to achieve and maintain the quality standards required by the Cairo Communication Group.

With regard to RCS, referring to relations with employees, any absenteeism from work or other expressions of conflict could lead to interruptions, and if they continue over time, disruptions to the extent of affecting the operating results of the Group.

The Group's main raw material is paper. The macroeconomic trend has recently led to the closure of a number of mills, amplifying the oligopolistic nature of the market and generating price tensions and procurement difficulties, specifically for pink paper.

Some relationships with suppliers/customers are based on licensing and/or sponsorship contracts, whose non-renewal on expiration or renewal at less favorable conditions, could lead to negative effects on the Group's economic and financial situation.

Risks associated with legal and regulatory developments

The Cairo Communication Group operates in a number of heavily-regulated business areas.

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 Finance Law"), which sets the general principles for the provision of audiovisual and radio media services.

Cairo Network works as a network operator on the basis of the Mux license of use issued by the Ministry of Economic Development on 31 July 2014, reg. DGSCERP/111/48081. The role of network operator carried out by Cairo Network is subject to extensive regulation at both national and EU level. Specifically, radio-television broadcasters are subject to regulations aimed at protecting people and the environment from exposure to electromagnetic fields.

Since, as mentioned above, a qualified operator was engaged to create and manage the network in full service mode, who made commitments and guarantees that Cairo Communication considered to be adequate to ensure compliance with applicable regulations, any breaches of these regulations could result in sanctions that could also include interrupting transmission, which could have negative effects on the operating results and financial position of the Cairo Communication Group.

Article 1, paragraph 1026 and ensuing paragraphs, of the 2018 Italian Budget Law (Law no. 205 of 2017) introduced specific provisions for terrestrial TV operators to release 694-790 MHz frequencies ("700 band" – corresponding to channels 49-60) to telephone operators and for the consequent reorganization of the user rights of existing television operators over the remaining television spectrum ("refarming").

The 700 band frequencies must be fully released by television operators by 30 June 2022, as they are assigned to telecom operators as a result of the tender procedure concluded in October 2018.

The provisions of the 2018 Budget Law were subsequently amended, in some respects, in the 2019 Budget Law (Law no. 145 of 2018) and the refarming procedures initiated in 2018 were restarted with updated timing.

The UHF band frequencies that will remain internationally allocated to post-refarming terrestrial television broadcasting are channels 21 to 48. Based on the bilateral agreements with radio-electrically bordering countries, AGCOM has planned 12 muxes of national frequencies (11 in the UHF band - one of which "decomposable" intended for the public licensee - and 1 mainly in the VHF band), much lower than the current amount (the current muxes of national frequencies are 20, almost double).

The 2018 Budget Law requires national frequency muxes to adopt the DVB-T2 digital terrestrial standard, introducing a transitional conversion of the rights to use national frequency muxes into rights to use transmission capacity, with a view to subsequent reallocation. The 2019 Budget Law also introduced a procedure for consideration on the assignment of rights of use (presumably in an amount equivalent to two muxes) that do not arise from the above conversion of current rights of use; the procedure must be called by 30 November 2019.
In implementation of the 2018 Budget Law, AGCOM published the resolutions:
i) no. 137/18/CONS and no. 290/2018/CONS (respectively initiating the procedure and adopting the National Frequency Allocation Plan for digital terrestrial television, PNAF 2018);
ii) no. 182/18/CONS, initiating the procedure to define the criteria for the conversion of rights to use frequencies at national level for digital terrestrial service into rights to use broadcasting capacity and for the assignment at national level of the rights to use planned frequencies, assuming a possible 2:1 criterion;
iii) no. 474/18/CONS, launching the public consultation on the definition of the criteria set out in the procedure initiated by Decision No 182/18/CONS.
On 5 April 2018, the MISE published the draft decree on the Roadmap for the liberalization of the 700 MHz frequency band and, on 8 August 2018, its final version. Additionally, a "TV forum" (at MISE) was also set up in September 2018 to involve both operators and authorities.
In implementation of the 2019 Budget Law, in February 2019, AGCOM published resolution no. 39/19/CONS, adopting the new National Frequency Allocation Plan for digital terrestrial television (PNAF 2019), which replaces the 2018 PNAF.
Cairo Network was heard in the context of the various proceedings, and took part in the relating public consultations and in the above-mentioned "TV Forum", pointing out the legal and technical arguments for the exclusion of the Company from the application of the Budget Law, also attaching the supporting documents.
Specifically, the Authorities were explained, *inter alia*, that the granting of television frequencies to Cairo Network has a backstory and features that are quite different from the rest of the Italian television system. In fact, and unlike other operators: 1) Cairo, as the new entrant, purchased its 20-year right to use the frequencies for consideration from MISE, following a specific tender procedure put in place by the Ministriy of Economic Development to sidestep an EU infringement by Italy; 2) Cairo began implementing the high-quality television network and territorial broadcasting only from July 2014 (date of the tender procedure award). Additionally, the documents related to the tender procedure for consideration on the allocation of frequencies

explicitly provided, on issue of the frequency in favour of the telco operators, that the successful bidder (for Lot 3) would receive a frequency similar to the frequency assigned (with regard to the channel involved in refarming).

Cairo Network also challenged resolutions nos. 137, 182 and 290 of AGCOM and the draft and final version of the MISE decree, filing appeals with the Latium Regional Administrative Court, Rome, and subsequent additional grounds (g.r. no. 6740/2018 and g.r. no. 7078/18), in which the same arguments raised with the public authorities and further illegalities of the contested measures were also raised with the administrative judge. These cases are currently pending. In the coming weeks, Cairo Network will also challenge Resolution no. 39/19/CONS.

The schedule to date is as follows:

- by 30 March 2019, AGCOM is called to establish the criteria on the conversion of rights to use frequencies at national level and for the allocation of rights to use planned frequencies at national level;
- by 15 April 2019, update of the Roadmap for the release of frequencies, published by MISE through decree dated 8 August 2018;
- by 30 June 2019, MISE will issue the rights to use frequencies for national network operators based on AGCOM criteria;
- by 30 September 2019, AGCOM is called to establish the procedure for consideration by which rights of use not arising from the conversion of existing rights of use will be assigned.

In light of the constantly evolving regulatory framework and the various acts and provisions still in the process of being adopted by public authorities, the effects of the future reorganization of the television band cannot be predicted with certainty at this time, nor the outcome of the discussions initiated with the Authorities or of the TAR judgements.

In view of the new frequency structure, the law also requires the automatic digital terrestrial TV channel numbering plan to be updated, which should be drawn up by AGCOM no later than 31 May 2019, together with the procedures for allocating the numbers.

RCS also operates in a complex regulatory environment in both Italy and abroad. Developments in the relevant regulations involving the introduction of new legal specifications or the amendment of current laws could have significant effects on the Group asset portfolio, as well as on corporate governance and on internal compliance processes, which may work against the economic need to simplify administrative processes and improve the quality of reporting in support of the business.

Risks associated with the measurement of intangible assets

At 31 December 2018, the Group held intangible assets for a total of Euro 994 million.

Intangible assets should be regularly subject to measurement, in accordance with international accounting standards, in order to verify their recoverable carrying amount and ensure their consistency with the carrying amounts in the financial statements (impairment test).

With regard to the Cairo Network mux, the transmission of the terrestrial radio television signal is, to date, the most common transmission system used at national level. However, any increase in the distribution of alternative transmission means (for example satellite, cable or Internet) could lead to a reduction in demand for transmission capacity, and therefore make it harder for the Cairo Communication Group to offer third parties the mux bandwidth it does not use for its own television activities, with negative effects on the operating results and financial position of the Cairo Communication Group.

Risks associated with litigation

Due to the nature of its business, the Cairo Communication Group is subject to the risk of litigation in the performance of its activities. The Cairo Communication Group monitors the development of these disputes, including with the help of external consultants, and sets aside the amounts needed to deal with the disputes in place according to how likely they are to lose.

The notes on "Other information" (Note 36 to the consolidated financial statements) contain information on a number of cases of litigation. The evaluation of potential legal and tax liabilities, which requires the Company to use estimates and assumptions, is based on forecasts made by the Directors, following opinions expressed by the Company's legal and tax advisers on the probable cost that is reasonably considered to be incurred. Actual results may vary from these estimates.

Mention should be made that, because of its business activities, the Cairo Communication Group is involved in certain civil and criminal disputes for press defamation. With regard to the disputes for libel, on the basis of the experience of the Cairo Communication Group, for the cases where the Cairo Communication Group companies have lost, these proceedings are normally settled by paying compensation for smaller amounts than the original amounts claimed. Moreover, La7 has an insurance policy that covers professional responsibility for television activity.

Financial risks

The Group manages capital structure and financial risks consistent with its asset structure, in order to maintain adequate and consistent credit ratings and capital ratio levels, taking account of the current credit availability in the Italian system.
The notes on "Information on financial risks" (Note 38 to the consolidated financial statements) contain information on liquidity risk, interest rate risk and credit risk.

Treasury shares

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

With regard to RCS, at 31 December 2018, there were no. 4,542,474 treasury shares in portfolio, at an average carrying amount of Euro 5.9 per share, corresponding to a total of 0.87% of the entire share capital.

Stock Options

Cairo Communication and RCS have 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 services it offers to the community, human resources form a critical factor for the success of the Cairo Communication Group. The enhancement of staff, the development of skills and the recognition of achievements and responsibilities are the principles

underpinning personnel management, from the selection phase, which is facilitated by the high degree of the Group's visibility and its ability to attract personnel.

Accordingly, the Group's main objective is to continually enhance human capital, developing existing skills, with a view to increasing professional qualities and creating the best conditions to ensure team spirit, motivation and participation in the workplace, in order to reinforce the shared feeling of belonging to a constantly expanding and leading publishing Group.

The breakdown of personnel at 31 December 2018 can be analyzed as follows, distinguishing between the Cairo Communication Group on a like-for-like basis (before acquisition of the control of RCS) and RCS, split up further by gender:

	CAIRO LIKE-FOR-LIKE BASIS		RCS		TOTAL
	MEN	WOMEN	MEN	WOMEN	
Senior managers	29	2	61	20	112
Editors	5	2	29	13	49
Managers	46	27	144	113	330
Employees	217	214	618	792	1,841
Blue-collar workers	0	2	212	20	234
Journalists and freelance	97	138	761	482	1,478
TOTAL	**394**	**385**	**1,825**	**1,440**	**4,044**

The breakdown of employees between Italy and abroad, split up further by gender, can be analyzed as follows:

	ITALY		ABROAD		TOTAL
	MEN	WOMEN	MEN	WOMEN	
Senior managers	80	16	10	6	112
Editors	28	10	6	5	49
Managers	150	110	40	30	330
Employees	544	629	291	377	1,841
Blue-collar workers	178	17	34	5	234
Journalists and freelance	551	418	307	202	1,478
TOTAL	**1,531**	**1,200**	**688**	**625**	**4,044**

With regard to the Cairo Communication Group on a like-for-like basis, the exact headcount at 31 December 2018 (779) is 8 units higher than the figure at 31 December 2017.

Specifically, turnover versus 2018 can be analyzed as follows:

Description	01/01/2018	Recruitments	Terminations	Advancements	31/12/2018
Open-ended contracts	**724**	**12**	**(21)**	**3**	**718**
Senior managers	**29**	2	(1)	-	**30**
Managers	**79**	-	(6)	-	**73**
Employees	**404**	8	(12)	1	**401**
Journalists and freelance	**212**	2	(2)	2	**214**
Fixed-term contracts	**47**	**162**	**(145)**	**(3)**	**61**
Senior managers	**1**	-	-	-	**1**
Managers	**-**	-	-	-	**-**
Employees	**16**	88	(73)	(1)	**30**
Journalists and freelance	**29**	71	(70)	(2)	**28**
Blue-collar workers	**1**	3	(2)	-	**2**
Grand total	**771**	**174**	**(166)**	**-**	**779**

Additionally, most of the employees work in the TV segment (457, -59%), followed by the magazine and book publishing segment (219, -28%). The advertising segment employs 93 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.

In the year under review, regarding the Cairo Communication Group on a like-for-like basis - only one work-related accident occurred, with no cases of occupational diseases reported.

With regard to RCS, the exact headcount at 31 December 2018 (3,265) is 56 units lower than the figure at 31 December 2017. The change is explained mainly by the effects of the efficiency plans, partly offset by the measures taken to enhance the publishing offer and develop digital assets and the new business line RCS Academy, and by actions to stabilize and manage turnover.

The exact headcount broken down by geographical segment is shown below.

	ITALY 31 December		SPAIN 31 December		OTHER COUNTRIES 31 December		TOTAL 31 December	
	2018	2017	2018	2017	2018	2017	2018	2017
Executives, middle managers and	994	1,005	707	738	47	53	1,748	1,796
Publication editors and journalists	765	767	517	521	3	2	1,285	1,290
Blue collars	193	195	39	40			232	235
Consolidated total	**1,952**	**1,967**	**1,263**	**1,299**	**50**	**55**	**3,265**	**3,321**

Employees working in the Group's foreign operations, amounting to 1,313 units, accounted for approximately 33% of the Group's average total at December 2018.

As regards trade-union relations in Italy, mention should be made of the conclusion in 2017 of the trade-union agreements relating to *Corriere della Sera* and *Gazzetta dello Sport*, and of the conclusion at end December 2017 of the defensive solidarity contract regarding RCS employees.

February 2018 saw the conclusion of the crisis situation involving the rotating extraordinary redundancy fund (CIGS) for early retirement regarding the magazine segment of RCS; in Italy, during 2018, the policy, instead, was hinged on discussions with the trade unions without applying situations of crisis, and without using social safety nets and defensive solidarity contracts. The focus was on increasing productivity and the activities of existing employees, thanks to the new products envisaged in the publishing plan on the development and take-up of further operations previously outsourced.

In 2018, no deaths were reported at RCS, while in 2017 an event had resulted in the death of a worker due to work-related travel.

Environment

The Cairo Communication Group, with regard to its traditional segments - Cairo Editore, advertising agency, La7, Il Trovatore - has outsourced its production processes to carry out its activities. Therefore, there are no relevant environmental aspects.

With regard to the activities of the network operator, Cairo Network, radio-television broadcasters are subject to regulations aimed at protecting people and the environment from exposure to electromagnetic fields. As explained above, the creation and management of the network was granted in full service mode to a qualified operator in the sector, who took on commitments and guarantees judged by Cairo Communication to be adequate to ensure compliance with applicable regulations.

RCS, which prints dailies in Italy at its production centers in Pessano, Rome and Padua, continued with its commitment to environmental matters in 2018, which had already been

developed in past years, with a view towards optimizing these resources in all company processes. The processes involved were not only those more strictly related to production, but also those present in "non-core" areas, such as office space management.

Lastly, mention should be made that both the Cairo Communication Group and the RCS Group have prepared a specific non-financial statement for 2018, in accordance with the relevant legislation, to which reference is made for further information on such issues as human resources, health and safety and the environment.

Report on Corporate Governance and Ownership Structure (art. 123-bis of Legislative Decree 24 February 1998. 58)

The Report on corporate governance and ownership structure, containing the information on compliance by Cairo Communication S.p.A. with the Corporate Governance Code for Listed Companies promoted by Borsa Italiana S.p.A., and the other information pursuant to paragraphs 1 and 2 of article 123-*bis* of Legislative Decree no. 58 of 24 February 1998, is published in accordance with the time limits of law also on the Company's website - Governance section.

Consolidated non-financial statement at 31 December 2018

The consolidated non-financial statement (hereinafter also the "NFS") for 2018, drawn up in compliance with articles 3 and 4 of Legislative Decree 254/16, which aims to provide an overview of the policies, main risks and management criteria relating to the sustainability issues relevant to the Cairo Communication Group (hereinafter also the "Group"), is published in accordance with the time limits of law, also on the Company's website - Governance section.

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.

The Group has carried out the necessary checks and measures to come into line with Regulation (EU) 2016/679 of the European Parliament and of the Council on the protection of natural

persons with regard to the processing of personal data and on the free movement of such data (the "General Data Protection Regulation"), effective, directly in all EU countries, as from 25 May 2018.

Events after the reporting period and business outlook

Against a persistently uncertain backdrop, in 2018:

- RCS continued its relaunch, with margins growing strongly versus the same period of the prior year, in line with the 2018 performance targets, thanks to the initiatives implemented to maintain and develop revenue and to the ongoing efficiency actions;
- the TV publishing segment La7 reported a sharp increase in La7's audience (+28.1% in all-day share and +36% in prime time versus 2017). Advertising sales on La7 and La7d channels, amounting to Euro 149.2 million, were equally on the rise by over 8.3% versus 2017 (Euro 137.8 million), increasing strongly in the second half of the year (approximately +17%). The remarkable share results were repeated in the first two months of 2019, rising by +15% in all-day and by +12% in prime time (fifth national channel in this slot with approximately 5% of the share - *Auditel*);
- the magazine publishing segment Cairo Editore posted positive results, achieved high circulation levels of the publications, and continued to work on improving the levels of efficiency reached in containing costs (production, publishing and distribution).

In 2019, the Cairo Communication Group, with regard to the scope of its traditional activities, will continue to:

- pursue the development of its Cairo Editore publishing and advertising sales segments, continuing for Cairo Editore its strategy aimed at attracting market segments with greater potential and strengthening the results of its publications. In these segments, despite the economic and competitive backdrop, given the high quality of the publications and of the media under concession, the Group considers it a feasible target to continue to achieve positive operating results;
- work towards developing its activities in the TV publishing segment, forecast to achieve a positive gross operating profit (EBITDA) also in 2019, up versus 2018, thanks also to the expected upward trend of advertising sales.

With regard to RCS, on the approval of the 2018 Annual Report, its directors announced that, in light of the actions already implemented and those planned to maintain and develop revenue

and to continue pursuing operating efficiency, in the absence of events unforeseeable at this time, and disregarding the effects of the different accounting presentation arising from the adoption of the new IFRS 16 as from 1 January 2019, RCS believes it can confirm in 2019 the target of achieving margin levels and cash flows from operations that are basically in line with those achieved in 2018, allowing a further significant reduction in financial debt.

Developments in the overall economic climate and in the core segments could, however, affect the full achievement of these targets.

For the Board of Directors

Chairman Urbano Cairo

Shareholders,

We invite you to approve the separate financial statements as at and for the year ended 31 December 2018 and the accompanying reports, and we propose the distribution of a dividend of Euro 0.14 per share, gross of tax.

Shareholders are invited:

- to approve the financial statements for the year ended 31 December 2018, which show profit for the year of Euro 6,458,094.37;
- to resolve on the distribution to shareholders of a dividend of Euro 0.14 per share, gross of tax, for each share entitled to receive profit distributions, with the exception of treasury shares held by the Company on the date prior to the record date pursuant to art. 83-*terdecies* of the TUF, by allocating the entire profit for the year of Euro 6,458,094.37 and drawing on the share premium reserve for the difference up to of Euro 12,360,299.35.

If approved by the Shareholders, the dividend of Euro 0.14 per share will be made payable on 29 May 2019 (record date pursuant to art. 83-terdecies of the TUF: 28 May 2019), prior to detachment of coupon no. 13 on 27 May 2019.

For the Board of Directors

Chairman Urbano Cairo

CAIROCOMMUNICATION

Consolidated Financial Statements and explanatory notes

Consolidated income statement at 31 December 2018

€ millions	Notes	2018	2017
Net revenue	1	1,224.1	1,109.4
Other revenue and income	2	25.9	26.1
Change in inventory of finished products	3	0.3	(0.3)
Raw materials, consumables and supplies	4	(125.0)	(107.2)
Services	5	(532.0)	(462.8)
Use of third-party assets	6	(65.2)	(60.9)
Personnel expense	7	(329.8)	(321.4)
Income (expense) from equity-accounted investees	18	2.0	2.1
Amortization, depreciation, provisions and impairment losses	8	(55.5)	(66.1)
Other operating costs	9	(17.6)	(16.2)
EBIT		**127.3**	**102.7**
Other income (expense) from financial assets/liabilities	10	(0.9)	16.2
Net financial income (expense)	11	(14.5)	(24.8)
Profit (loss) before tax		**111.8**	**94.1**
Income tax	12	(14.7)	(10.8)
Profit from continuing operations		**97.2**	**83.3**
Loss from discontinued operations		0.2	**-**
Profit for the year		**97.4**	**83.3**
- Owners of the parent		60.3	52.0
- Non-controlling interests - continuing operations		37.1	31.3
		97.4	**83.3**
Earnings per share (Euro)			
- Earnings per share - continuing and discontinued operations	14	0.449	0.387
- Earnings per share - continuing operations	14	0.449	0.387

Consolidated statement of comprehensive income at 31 December 2018

€ millions		2018	2017
Profit for the year		**97.4**	**83.3**
Reclassifiable items of the comprehensive income statement			
Gains (losses) from the translation of financial statements denominated in foreign currencies		-	-
Reclassification of gains (losses) from the translation of financial statements in foreign currencies		-	-
Gains (losses) on cash flow hedges	31	(1.5)	(0.2)
Reclassification of gains (losses) on cash flow hedges	31	1.1	3.6
Tax effect		0.1	(0.8)
Non-reclassifiable items of the comprehensive income statement			
Actuarial profit (loss) from defined benefit plans		0.5	(0.4)
Tax effect		(0.1)	0.1
Gains (losses) from fair value measurement of equity instruments	17	(1.5)	-
Total comprehensive income for the period		**96.0**	**85.6**
- Owners of the parent		59.5	53.2
- Non-controlling interests - continuing operations		36.5	32.4
		96.0	**85.6**

Consolidated statement of financial position at 31 December 2018

Assets € millions	Notes	31 December 2018	31 December 2017
Property, investment property, plant and equipment	15	89.6	97.7
Intangible assets	16	994.0	1,008.2
Investments	17	41.2	45.9
Non-current financial receivables	18	2.2	3.8
Other non-current assets	19	15.0	15.3
Prepaid tax assets	20	103.0	113.3
Total non-current assets		**1,245.0**	**1,284.2**
Inventory	21	22.9	18.2
Trade receivables	22	268.3	293.2
Receivables from parents, associates and affiliates	23	21.6	18.7
Sundry receivables and other current assets	24	32.3	38.9
Other current financial assets	18	1.7	0.9
Cash and cash equivalents	25	56.2	128.1
Total current assets		**403.0**	**498.0**
Total assets		**1,648.0**	**1,782.2**

Equity and liabilities	Notes	31 December 2018	31 December 2017
Share capital		7.0	7.0
Share premium reserve		236.5	242.9
Prior-years' earnings (losses) and other reserves		133.0	89.7
Profit for the year		60.3	52.0
Equity attributable to the owners of the parent		**436.8**	**391.6**
Non-controlling interests' share capital and reserves		**286.9**	**250.8**
Total equity	26	**723.7**	**642.4**
Non-current financial payables and liabilities	27	182.6	319.1
Post-employment benefits	28	50.0	51.6
Provisions for non-current risks and charges	29	16.1	14.9
Deferred tax liabilities	29	165.3	169.7
Other non-current liabilities	30	0.9	0.9
Total non-current liabilities		**414.9**	**556.2**
Current financial payables and liabilities	31	63.9	73.0
Payables to suppliers	32	262.4	307.7
Payables to parents, associates and affiliates	33	19.3	17.2
Tax payables	34	18.3	16.8
Current portion of provisions for risks and charges	28	46.2	54.4
Sundry payables and other current liabilities	35	99.3	114.5
Total current liabilities		**509.4**	**583.6**
Total liabilities		**924.3**	**1,139.8**
Total equity and liabilities		**1,648.0**	**1,782.2**

Consolidated statement of cash flows

€ millions	2018	2017
Cash and cash equivalents	128.1	124.8
Current bank loans and overdrafts	(16.8)	(38.9)
CASH AND CASH EQUIVALENTS OPENING BALANCE	**111.3**	**85.9**
OPERATIONS		
Profit	97.4	83.3
Amortization/Depreciation	46.4	54.9
Impairment losses on long-term financial assets	2.4	
(Income) loss on investments	(3.5)	(18.3)
Net financial expense	14.5	24.8
Dividends from equity-accounted investees	5.9	7.1
Income tax	14.7	10.8
Change in post-employment benefits	(1.6)	(2.2)
Change in provisions for risks and charges	(5.7)	(4.7)
Cash flow from operations before changes in working capital	**170.4**	**155.7**
(Increase) decrease in trade and other receivables	26.4	34.2
Increase (decrease) in payables to suppliers and other liabilities	(57.2)	(66.4)
(Increase) decrease in inventory	(4.7)	2.1
TOTAL CASH FLOW FROM OPERATIONS	**135.0**	**125.6**
Income tax received (paid)	(5.2)	(1.5)
Net financial expense paid	(14.0)	(26.9)
TOTAL NET CASH FROM OPERATIONS (A)	**115.8**	**97.2**
INVESTING ACTIVITIES		
(Acquisition) disposal net of PPE and intangible assets	(27.9)	(27.0)
Consideration from the disposal of investments	0.0	18.1
Decrease (increase) in other non-current assets	(3.9)	0.3
NET CASH USED IN INVESTING ACTIVITIES (B)	**(31.8)**	**(8.7)**
FINANCING ACTIVITIES		
Dividends paid	(13.4)	(6.7)
Increase (decrease) in financial payables	(137.6)	(53.4)
(Increase) decrease in current financial receivables	(1.0)	0.3
Increase (decrease) in non-controlling interests' share capital and reserves	(1.0)	(1.5)
Other changes in equity	0.3	(1.9)
NET CASH USED IN FINANCING ACTIVITIES (C)	**(152.7)**	**(63.2)**
CASH FLOW FOR THE PERIOD (A)+(B)+(C)	**(68.7)**	**25.4**
CASH AND CASH EQUIVALENTS CLOSING BALANCE	**42.6**	**111.3**
Cash and cash equivalents	56.2	128.1
Current bank loans and overdrafts	(13.6)	(16.8)
CASH AND CASH EQUIVALENTS CLOSING BALANCE	**42.6**	**111.3**

Statement of changes in consolidated equity

€ millions	Share capital	Share premium reserve	Prior-years' profit (loss) and other reserves	Profit for the year	Equity attributable to the owners of the parent	Non-controlling interests' share capital and reserves	Total
Balance at 31 December 2015	**4.1**	**30.5**	**70.5**	**11.1**	**116.2**	**0.1**	**116.3**
Allocation of profit			11.1	(11.1)	**0.0**		**0.0**
Dividend distribution		(7.6)	(8.1)		**(15.7)**		**(15.7)**
Share capital increase	2.9	224.1			**227.0**		**227.0**
Ancillary costs to the capital increase net of the tax effect		(4.1)			**(4.1)**		**(4.1)**
Change in the scope of consolidation					**0.0**	33.1	**33.1**
Total comprehensive income for the year				20.2	**20.2**	9.8	**30.0**
Balance at 31 December 2016	**7.0**	**242.9**	**73.5**	**20.2**	**343.6**	**43.0**	**386.6**
Effects from the completion of the purchase price allocation of RCS				1.2	1.2	178.0	**179.2**
Adjusted balance at 31 December 2016	**7.0**	**242.9**	**73.5**	**21.4**	**344.8**	**221.0**	**565.8**
Allocation of profit			21.4	(21.4)	**0.0**		**0.0**
Dividend distribution			(6.7)		**(6.7)**		**(6.7)**
Other changes			0.3		**0.3**	(2.6)	**(2.3)**
Items of the comprehensive income statement			1.2	(1.2)	**0.0**		**0.0**
Total comprehensive income for the year				53.2	**53.2**	32.4	**85.6**
Balance at 31 December 2017	**7.0**	**242.9**	**89.7**	**52.0**	**391.6**	**250.8**	**642.4**
Effects from the application of IFRS 9			(0.6)		**(0.6)**	(0.3)	**(0.9)**
Balance at 1 January 2018	**7.0**	**242.9**	**89.1**	**52.0**	**391.0**	**250.5**	**641.5**
Allocation of profit			52.0	(52.0)	**0.0**		**0.0**
Dividend distribution		(6.4)	(7.0)		**(13.4)**		**(13.4)**
Other changes			(0.3)		**(0.3)**	(0.1)	**(0.4)**
Items of the comprehensive income statement			(0.8)	0.8	**0.0**		**0.0**
Total comprehensive income for the year				59.5	**59.5**	36.5	**96.0**
Balance at 31 December 2018	**7.0**	**236.5**	**133.0**	**60.3**	**436.8**	**286.9**	**723.7**

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

€ millions

	2018	**related parties (*)**	**% of total**	**2017**	**related parties (*)**	**% of total**
Net revenue	1,224.1	284.3	23.2%	1,109.4	210.2	18.9%
Other revenue and income	25.9		-	26.1	-	-
- of which non-recurring	*2.6*			*0.2*		
Change in inventory of finished products	0.3	-	-	(0.3)	-	-
Raw materials, consumables and supplies	(125.0)	-	-	(107.2)	-	-
Services	(532.0)	(110.8)	20.8%	(462.8)	(43.3)	9.4%
- of which non-recurring	-			*(1.3)*		
Use of third-party assets	(65.2)	-	-	(60.9)	-	-
Personnel expense	(329.8)	-	-	(321.4)	-	-
- of which non-recurring	*(1.8)*			*(0.7)*		
Income (expense) from equity-accounted investees	2.0	-	-	2.1		
- of which non-recurring	*(0.6)*			-		
Amortization, depreciation, provisions and impairment lo:	(55.5)	-	-	(66.1)	-	-
Other operating costs	(17.6)	-	-	(16.2)	-	-
EBIT	**127.3**	**-**	**-**	**102.9**	-	
Other income (expense) from financial assets/liabilities	(0.9)	-	-	16.2	-	-
Net financial income (expense)	(14.5)	(0.1)	0.7%	(24.8)	(1.0)	4.0%
Profit (loss) before tax	**111.8**	**-**	**-**	**94.3**	**-**	**-**
Income tax	(14.7)	-	-	(10.8)	-	-
Profit from continuing operations	**97.2**	**-**	**-**	**83.5**	**-**	**-**
Loss from discontinued operations	0.2	-	-		-	-
Profit for the year	**97.4**	**-**	**-**	**83.5**	**-**	**-**

(*) Related party transactions are analyzed in Note 37

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

€ millions						
Assets	**31 December 2018**	**related parties (*)**	**% of total**	**31 December 2017**	**related parties (*)**	**% of total**
Property, investment property, plant and equipment	89.6			97.7		
Intangible assets	994.0			1,008.2		
Investments	41.2			45.9		
Non-current financial receivables	2.2			3.8		
Other non-current assets	15.0			15.3		
Deferred tax assets	103.0			113.3		
Total non-current assets	**1,245.0**			**1,284.2**		
Inventory	22.9			18.2		
Trade receivables	268.3	1.1	0.4%	293.2	1.1	0.4%
Receivables from parents, associates and affiliates	21.6	21.6	100.0%	18.7	18.7	100.0%
Sundry receivables and other current assets	32.3			38.9		
Other current financial assets	1.7			0.9		
Cash and cash equivalents	56.2			128.1		
Total current assets	**403.0**			**498.0**		
Total assets	**1,648.0**			**1,782.2**		

Equity and liabilities	**31 December 2018**	**related parties (*)**	**% of total**	**31 December 2017**	**related parties (*)**	**% of total**
Share capital	7.0			7.0		
Share premium reserve	236.5			242.9		
Prior-years' profit (loss)	133.0			89.7		
Profit for the year	60.3			52.0		
Equity attributable to the owners of the parent	**436.8**			**391.6**		
Non-controlling interests' share capital and reserves	286.9			250.8		
Total equity	**723.7**			**642.4**		
Non-current financial payables and liabilities	182.6			319.1		
Post-employment benefits	50.0			51.6		
Provisions for non-current risks and charges	16.1			14.9		
Prepaid tax assets	165.3			169.7		
Other non-current liabilities	0.9			0.9		
Total non-current liabilities	**414.9**			**556.2**		
Current financial payables and liabilities	63.9	6.8	10.6%	73.0	4.4	6.0%
Payables to suppliers	262.4			307.7		
Payables to parents, associates and affiliates	19.3	19.3	100.0%	17.2	17.2	100.0%
Tax payables	18.3			16.8		
Current portion of provisions for risks and charges	46.2			54.4		
Sundry payables and other current liabilities	99.3			114.5		
Total current liabilities	**509.4**			**583.6**		
Total liabilities	**924.3**			**1,139.8**		
Total equity and liabilities	**1,648.0**			**1,782.2**		

(*) Related party transactions are analyzed in Note 37

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

Main activities

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

The Cairo Communication Group (the 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 dailies and magazines (weeklies and monthlies) in Italy and Spain through RCS, also active in the organization of major world sporting events, as a publisher of electronic content (Il Trovatore), and as a network operator (Cairo Network).
The registered office of Cairo Communication S.p.A. is in Corso Magenta 55, Milan. The administrative offices, the advertising sales units and Il Trovatore and Cairo Network are located in Via Rizzoli 8. The magazine publishing business is managed at the offices of Cairo Editore in Corso Magenta 55, Milan. The publishing business of La7 is managed mainly in Rome at the registered offices and the TV studios of La7 S.p.A. in Via della Pineta Sacchetti 229 and Via Novaro 32, respectively. RCS activities are mainly carried out in Via Rizzoli 8 and Via Solferino 28, Milan, and in Avenida San Luis 25, Madrid.

The currency of these consolidated financial statements is the Euro, used as the functional currency by most Group companies. Unless otherwise indicated, all amounts are expressed in millions of Euro. At 31 December 2018, the consolidated financial statements included 58 companies directly or indirectly controlled and consolidated on a line-by-line basis (61 companies at 31 December 2017).

The entity which prepares the consolidated financial statements of the largest body of entities, of which the entity forms part, is U.T. Communications S.p.A., with registered office in Via Montenapoleone 8, Milan.

Basis of preparation

Form and content of the consolidated financial statements

The consolidated financial statements of the Cairo Communication Group at 31 December 2018 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").

Form and content of the financial statements

The **consolidated income statement** is presented by nature, highlighting interim operating results and pre-tax results, in order to allow a better measurement of the results from normal operations. These transactions also fall under the definition of non-recurring events and transactions as per CONSOB Communication no. 6064293 of 28 July 2006.

The income statement effect of discontinued operations is shown in a single line of the income statement named "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 mainly 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 statement of cash flows** has been prepared applying the indirect method in which operating profit 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 changes 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 reporting formats, additional formats on the consolidated income statement and the consolidated statement of financial position have been added, highlighting significant related party transactions in order not to compromise the overall readability of the formats.

Scope of consolidation

In 2018:

- in October 2018, RCS Eventi Sportivi S.r.l. was incorporated; its share capital is 100% owned by RCS MediaGroup S.p.A. and is therefore consolidated on a line-by-line basis. As of 1 January 2019, RCS Eventi Sportivi S.r.l. changed its name to RCS Sport&Events S.r.l.;

- Planet Sfera S.r.l. (in liquidation), previously consolidated on a line-by-line basis, and Planet Sfera S.l. and Gold 5 S.r.l. (in liquidation), previously consolidated at equity, were deconsolidated following their liquidation;

- on 19 November 2018, the deed on the merger by incorporation of RCS International Newspapers S.r.l. (former RCS International Newspapers B.V.) into RCS MediaGroup S.p.A.

was signed. The accounting and tax effects of the merger apply as of 1 January 2018, and the legal effects as of 31 December 2018.

Lastly, Rey Sol S.L. and Unidad Editorial Información Regional S.L. (previously consolidated on a line-by-line basis) were merged by incorporation into Editora De Medios De Valencia Alicante Y Castellon S.L., and Fabripress S.A. (consolidated at equity) was merged by incorporation into Bermont Impresión S.L..

The consolidated financial statements at 31 December 2018 include the financial statements of the Parent and Cairo Communication S.p.A. and the following direct and indirect subsidiaries, appearing in Annex 1 "Cairo Communication Group companies".

Consolidation procedures

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and endorsed by the European Union.

It should be noted that the consolidated financial statements of the Cairo Communication Group at 31 December 2018 have been prepared on a going concern basis, inasmuch as the Group believes that even in the presence of a difficult economic and financial climate, 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.

With regard to CONSOB communication no. DEM/11070007 of 5 August 2011, it should also be recalled that the Group does not hold any bonds issued by central and local governments and by government agencies, and therefore it is not exposed to risks deriving from market fluctuations.

The direct and indirect subsidiaries appearing in Annex 1 "Cairo Communication Group companies - Companies consolidated line-by-line" are consolidated as from their acquisition date, meaning the date on which the Group obtains control, and cease to be consolidated on the date on which control is lost.

The income and expense of the subsidiaries acquired or sold during the year are included in the income statement from the date on which the Group gains control until the date on which the Group no longer controls the companies.

The companies on which it exercises joint control with other shareholders, and companies that are associated or otherwise subject to significant influence were consolidated at equity in accordance with

IFRS 11.

The accounting policies adopted are consistent for the companies included in the consolidation scope and the related financial statements have all been prepared at 31 December 2018.

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.

Under the "full goodwill" option, in addition to recognizing 100% of the fair value of assets and liabilities acquired, pursuant to IFRS 3 - Business Combinations, goodwill attributed to minorities is also booked. Accordingly, changes to the interest that do not constitute a loss of control or that refer to investees already controlled, are recognized in consolidated equity.

Non-controlling interests in the net assets of consolidated subsidiaries are disclosed separately from equity attributable to owners of the parent. This interest 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.

Assets held for sale, which are very likely to be disposed within the following twelve months, if the other conditions prescribed by IFRS 5 are met, are classified in accordance with the provisions of this standard, and therefore once they are consolidated line by line, the assets referred thereto are classified in a single item, defined "Assets held for sale". The liabilities related thereto are recognized in a single line of the statement of financial position, in the liabilities section, and the related margin is reported in the income statement under "Result of the assets held for sale and transferred".

Upon consolidation, the financial statements of the foreign subsidiaries in a currency other than the Euro

are translated adopting, for the figures of the statement of financial position, the spot exchange rate at the end of the year, and for the income components of the income statement, the average rate of the year. The resulting translation differences are recognized in a separate equity reserve named Translation Reserve.

Changes to the interest that do not constitute a loss of control or that refer to investees already controlled, are treated as equity transactions and classified in equity.

Business combinations and goodwill

Business combination are recognized according to the acquisition method, whereby the subsidiary's assets, liabilities and identifiable contingent liabilities that meet the conditions of IFRS 3 are measured at fair value on the acquisition date. Thus, deferred tax assets and liabilities are allocated on the adjustments made to the previous carrying amounts to align them to the current value.

Because of its complexity, application of the acquisition method entails a first step of provisionally determining the current values of the assets, liabilities and contingent liabilities acquired, to allow a first recording of the transaction in the consolidated financial statements for the year in which the combination was carried out. The first recording is completed and adjusted within twelve months from the date of acquisition. Changes to the initial consideration arising from facts or circumstances subsequent to the acquisition date are recognized in the income statement.

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. The "full goodwill" option allows the acquirer to recognize 100% of the goodwill of the acquired companies, rather than just the goodwill attributed to the majority.

Goodwill arising from the business combination of the RCS Group was determined by using the "full goodwill" approach.

Goodwill is recognized as an intangible asset with indefinite useful life and is not amortized.

Any 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.

Transaction costs do not form part of the consideration transferred and so are charged to the income

statement.

Goodwill is periodically re-examined, to verify its recoverability by comparison with the higher amount between fair value and value in use, calculated as the summation of the discounted future cash flows generated by the underlying investment. Impairment losses are recognized directly in profit and loss and are not subsequently reversed.

For the purposes of the fairness analysis, the goodwill acquired in a business combination is allocated, at the date of acquisition, to the Group's individual cash generating units, or to the groups of cash generating units that should benefit from the synergies of the combination, regardless of whether other assets or liabilities of the Group are assigned to these units or groups of units.

Investments in associates and joint ventures

Associates are those over which the Group, while not having control or joint control, can exercise significant influence through participation in decisions regarding financial and operating policies.

A joint venture is represented by investments in companies in which the strategic financial and managerial decisions on business activities require the unanimous agreement of all parties that share control, in accordance with IFRS 11.

The financial results, assets and liabilities of associates and joint ventures are consolidated using the equity method. Using this method, investments in associates at the time of acquisition are recognized in the statement of financial position at cost, subsequently adjusted for the pertinent fraction of the changes in shareholders' equity of the associate itself. 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.

The lower value of acquisition cost over the Group share of the fair value of assets, liabilities and identifiable contingent liabilities of the associate at the acquisition date is credited in the income statement during the year.

If an associate or *joint venture* recognizes adjustments with direct allocation to equity and/or in comprehensive income, the Group in turn records its share in equity and represents it, when applicable, in the statement of changes in equity and/or in the statement of other comprehensive income for the year.

Any impairment loss in the investment recognized in accordance with IAS 36 is not ascribable to

goodwill or to the fair value measurement of assets recorded in the financial statements of the associate, but rather to the value of the investment as a whole. Therefore, any reversal of impairment loss is recognized fully to the extent to which the recoverable value of the investment increases subsequently, on the basis of the result of the impairment test.

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.

Revenue and cost recognition

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

- Revenue is recognized based on the likelihood of the Company to enjoy the economic benefits and in the extent to which the amount can be reliably determined. Revenue is stated net of any adjustments;
- Revenue from the sale of advertising space in the traditional media segment is recognised based on the advertisement's circulation date or newspaper's/magazine's publication date
- Revenue from the sale of advertising space in the digital media segment is recognised based on the advertisement's circulation or publication date
- Revenue from (daily and periodical) publications is recognized at the date of publication, net of reasonably estimated returns and with the introduction of IFRS 15 starting from 1 January 2018 are presented gross of distribution premiums;
- Revenue from the sale of magazine subscriptions is recognized on the basis of the magazines published and distributed during the period;
- Revenue for services is recognized at the date of its accrual, as defined in the respective contracts;
- Royalties are recognized at the date of its accrual, as defined in the respective contracts;
- Pre-publication and launch costs are recognized in profit and loss when incurred;
- Costs and other operating expense are recognized as components of profit for the year at the time they are incurred according to the matching and accrual accounting principle that governs revenue, and when they have no requirements for deferral as assets in the statement of financial position;

- 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 or at the date of the shareholders' meeting resolution;
- Charge-backs of costs incurred on behalf of third parties are recognized as a reduction in the cost they relate to.

The Group adopted IFRS 15 - *Revenue from contracts with customers* as of 1 January 2018. As commented in the following section "Accounting standards, amendments and interpretations effective as of 1 January 2018 - IFRS 15 *Revenue from contracts with customers*", to which reference should be made, the effects of the application of the new standard are basically restricted to a different presentation of costs and revenue as a result of the valuation of the principal/agent role, with no impact on the consolidated result for the period and on Group consolidated equity at 1 January 2018.

Tax

Tax for the year corresponds to the sum of current, deferred tax and prepaid tax.

Current tax is 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 tax is calculated using the rates in force at the reporting date.

The subsidiaries Cairo Editore, Cairo Pubblicità, Diellesei in liquidation, Cairo Publishing, La7 and Cairo Network have participated, since 2016, in the national tax consolidation scheme of Cairo Communication, in accordance with art. 117/129 of the Consolidated Income Tax Act. Cairo Communication 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.

In 2018, RCS MediaGroup S.p.A., as the tax parent, renewed the option to be included in the national tax consolidated regime, introduced by Legislative Decree no. 344 of 12 December 2003, together with Trovolavoro S.r.l., RCS Sport S.p.A., RCS Produzioni Padova S.p.A., Sfera Service S.r.l., Blei S.r.l. in liquidation, RCS Edizioni Locali S.r.l., RCS Produzioni S.p.A., RCS Digital Ventures S.r.l., Digicast S.p.A., Digital Factory S.r.l., RCS Produzioni Milano S.p.A., Editoriale del Mezzogiorno S.r.l., RCS

Sports & Events S.r.l. and Mybeautybox S.r.l..

Deferred tax liabilities are generally recognized for all taxable temporary differences, while deferred tax assets or future tax benefits 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 tax is calculated on the basis of the tax rates that are expected will be in force at the moment of realization of the asset or settlement 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 tax relates to the same taxation authority.

Earnings per share

The basic earnings per share is determined as the ratio between the Group's share of the results of the year attributable to the ordinary shares and the weighted average number of ordinary shares outstanding during the year.

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 expense 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 economic and technical useful life of the asset. Depreciation rates applied are as follows:

Property	3% - 20%
General equipment	12% - 25%
Plant and equipment	5% - 20%
Other assets	10% - 50%

Land is not depreciated.

In the first year, the rates applied take into account the actual use of the asset during the year; depreciation starts when assets are 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.

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.

An asset is eliminated from the financial statements at the time it is sold, or it is written off when no future economic benefit is expected from its use or disposal. Any losses or gains (calculated as the difference between the net income from the sale and the carrying amount) are included in the income statement in the year of the aforesaid elimination.

The accounting treatment of the assets acquired with financial leases, with regard to their financial effects is in line with IAS 17. This standard requires such assets to be recognized at cost among assets owned by the Group and depreciated over the estimated useful life, on the same basis as other property, plant and equipment.

The principal amount of the lease payment is recorded under liabilities as a deduction from the payable amount, whilst the financial expense included in the payment is recognized under financial expense in the income statement.

This policy is also applied to leased assets that meet the specific conditions laid down by IAS 17, the most important of which are:

- the present value of future lease payments envisaged in the contract is substantially higher than or equal to the fair value of the asset itself;
- the duration of the lease contract exceeds three quarters of the useful life of the asset itself.

Investment property

Investment property held to obtain lease payments, for appreciation of the invested capital, or for both purposes, is recognized at cost, inclusive of directly allocated ancillary expense and, with the exception

of the component related to land, is systematically depreciated on a straight-line basis in each individual period on the basis of the estimated useful life.

Leasehold improvements are allocated to increase the involved assets only if they can be reliably estimated and they will be recoverable through expected future economic benefits that can be associated to them.

Investment property is periodically evaluated to identify any impairment losses as described in the following paragraph.

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.

Advertising costs, start-up and expansion costs, and research costs are not capitalized.

Non-current assets with a finite useful life are systematically amortized on a straight-line basis in each individual period, to take into account the residual potential for use.

"Goodwill" refers to the higher value attributed upon first consolidation of an investment or identified residually from the acquisition price paid by the Group that exceeds the fair value of the assets, liabilities and identifiable contingent liabilities of some subsidiaries, at the acquisition date.

Goodwill and intangible assets having indefinite life are not amortized, but rather they are periodically tested to identify any impairment losses, as described in the paragraph "Impairment losses of assets". If the discounted expected cash flows do not allow recovery of the initial investment, the recorded asset is appropriately written down.

The higher value attributed to an intangible asset with finite useful life, recorded in accordance with IFRS 3 as a result of the acquisition of an investment upon first consolidation, is amortized if referred to non-current assets with finite useful life. If goodwill is allocated to intangible assets with indefinite useful life, it is not amortized. These assets are tested for impairment as prescribed by IAS 36.

The amortization periods of intangible assets of various types are as follows:

Concessions, licenses, trademarks and similar rights	3 to 5 years
Software	3 to 5 years
Publication titles	10 to 30 years or indefinite
Television rights	based on availability period
Other intangible fixed assets	2 to 10 years

Publication titles with finite useful life are amortized over a period between ten and thirty 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, documentaries, reports and the like, including ancillary expense (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.

Assets under development are tested for impairment as prescribed by IAS 36.

Financial expense is 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.

Impairment of non-financial assets

At least once a year, the Company reviews the recoverability of the carrying amount of intangible assets with indefinite useful life, of intangible assets under development, and of investments and publication

titles with indefinite useful life, and whenever there are potential indicators of an impairment loss, the recoverability of the carrying amount of PPE and of intangible assets with 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. 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 defined by discounting the cash flows expected from use or sale of the asset (or from aggregate assets, i.e. cash generating units).

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, net of any amortization of depreciation.

The recoverable value of Italian and Spanish trademarks/daily newspaper titles and of goodwill arising from the business combination of the RCS Group was determined, with support by an independent expert, in terms of the value in use:

- for Italian trademarks/daily newspaper titles and goodwill arising from the business combination of the RCS Group, based on the 2019 budget approved by the Board of Directors of RCS on 6 March 2019. Cash flows as inferred from the 2019 budget, in compliance with the provisions of IAS 36, were projected for valuation purposes to be constant in nominal terms (growth rate g = 0). These flows were, therefore, discounted on the basis of a rate defined as the weighted average cost of capital (WACC) (equal to 7.81% for Italian trademarks/daily newspaper titles and to 7.85% for goodwill). The 2019 budget was also matched against and found to be consistent with the RCS 2019-2021 plan. No evidence of impairment arose from the analysis performed;
- for Spanish trademarks/daily newspaper titles El Mundo, Marca and Expansion, based on the 2019-2023 forecast cash flows which, for the first year of explicit forecast, correspond to the 2019 budget data approved by the Board of Directors of Unidad Editorial on 28 February 2019, and for the following years, are based on Unidad Editorial's Plan approved by the Board of Directors on 12 March 2019. Forecast cash flows for 2019-2023, projected for valuation purposes to be constant in nominal terms (growth rate g = 0), were discounted at a rate considered to represent the weighted average cost of capital (WACC equal to 7.93%). No evidence of impairment arose from the analysis performed.

The values obtained underwent a sensitivity analysis, by varying the discount rate (WACC) and the growth rate of the final value (g), with discrete changes of 50 basis points, and reducing the expected EBITDA values in the year and included in the final value of -15%. None of the scenarios envisaged result in impairment losses.

With regard to the Spanish daily newspaper titles *El Mundo*, *Marca* and *Expansion*, which were attributed, in the context of the business combination of the RCS Group, a fair value equal to the value recorded in the consolidated financial statements of the RCS Group at the acquisition date, RCS prepared an autonomous impairment test with the help of a leading consultancy firm, which indicated no impairment.

The book value of goodwill relating to the cash generating units represented by Cairo Editore's magazine publishing segment and the advertising segment was also subject to test and showed no impairment.

Financial assets

Receivables, with the exception of trade receivables, and other financial assets are initially recognized at fair value, in addition to, only for financial assets measured at fair value through profit or loss, any ancillary purchase expense. Trade receivables on initial recognition are measured at the price established in the transaction. Management determines upon initial recognition how financial assets are to be classified, in accordance with IFRS 9 criteria and as required by IFRS 7.

After initial recognition, financial assets are measured in accordance with their classification within one of the following categories:

- at amortized cost: receivables and other financial assets are measured at the amortized cost, recognizing in the income statement the interest calculated at the effective interest rate, i.e. applying a rate that reduces to zero the sum of the present values of the net cash flows generated by the financial instrument. Losses are recognized in the income statement when impairments manifest themselves or when loans and receivables are eliminated from the accounts. Receivables are impaired and recognized at their estimated realizable value (fair value) by means of the allowance for impairment directly deducted from their carrying amount.

  Receivables are impaired when there is objective evidence that the receivable is unlikely to be collected and also on the basis of past experience and statistics (expected losses).

If, in subsequent periods, the reasons for the previous impairment losses no longer apply, the value of the asset is restored up to the value that would have derived from applying the amortization cost, if the impairment loss had not been recognized.

The Group mainly reports in this category assets due within twelve months, which are therefore recognized at nominal amount as an approximation of amortized cost. If the terms of payment are longer than normal market terms and the loan or receivable does not earn interest, the amount booked contains an implicit financial component and so must be discounted by recognizing the relating discount in profit or loss.

Loans and receivables expressed in foreign currencies are converted at closing rates, and the gains or losses from their translation are taken to profit or loss.

- at fair value recognized in other comprehensive income (FVOCI): other non-current equity instruments (ex *available for sale*) are initially recognized at cost (fair value of the initial consideration given in exchange) increased by any transaction costs directly attributable to them. As the Group does not trade equities, it has adopted the option of presenting subsequent changes in the fair value of the investment among other comprehensive income. Accordingly, only dividends are recognized in the income statement (unless they clearly represent a refund of the investment). Changes in fair value and any gains or losses on disposal of the investment are recorded in the statement of comprehensive income and are never recorded in the statement of income. As this option can be exercised for each investment, any exceptions at the initial recognition stage will be shown in the comment on this item.

All the investments in equity instruments must be measured at fair value. In the case of securities traded on active markets, fair value is determined with reference to the closing price on the last trading day of the reporting period.

In the case of assets for which there is no active market, fair value is determined on the basis of the price used in recent transactions between independent parties in instruments that are substantially the same, or using other valuation techniques, such as income valuations or based on discounted cash flow analysis.

However, in a few circumstances only, cost may represent an adequate estimate of fair value if, for example, the latest information available to measure fair value is insufficient, or if there is a wide range of possible fair value measurements. Cost is never the best estimate of fair value for

investments in listed equity instruments.

As the Group does not trade equities, other non-current equity instruments consist of investments in equity instruments below 20% in which the Group does not exercise significant influence.

- at fair value recognized in profit/loss for the year (FVTPL): financial assets are measured upon initial recognition at fair value through profit or loss, determined based on the market value at the end of the reporting date; in the case of unquoted instruments, this amount is determined by means of generally accepted financial valuation techniques based on market information. Fair value gains and losses on assets in this category are recognized in profit or loss. At 31 December 2018, the Group did not hold any financial assets, which are initially measured at fair value.

Inventory

Inventory is measured at the lower of the purchase or production cost, including all directly attributable expense, net of discounts and allowances, calculated using the weighted average cost method, and estimated realizable value which can be derived from market prices. Estimated realizable value takes into account market prices, any production costs yet to incur and direct sales costs. Inventory is adjusted for obsolete and slow moving items through a specific write-down provision.

Cash and cash equivalents

This item comprises cash, bank 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.

Equity

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.

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 expense related to work performed and net financial expense 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.

Provisions for risks and charges

Provisions for risks 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.

Payables and other liabilities

The item comprises trade payables, loans and borrowings, bank loans and overdrafts and other liabilities.

Financial payables and liabilities are initially recognized at fair value, which basically matches the amounts cashed in net of transaction costs. Management determines upon initial recognition how financial liabilities are to be classified, in accordance with IFRS 9 criteria and as required by IFRS 7.

Subsequent to initial recognition, financial liabilities are measured in relation to their classification into one of the categories defined by IFRS 9. Specifically, the Group has classified its payables and other liabilities in the amortized cost category, except for derivative instruments, for which reference should be made to the specific paragraph, applying a rate that reduces to zero the sum of the present values of the net cash flows generated by the financial instrument. Instruments due within twelve months are measured at their nominal amount as an approximation of amortized cost.

If the loan agreements provide covenants, which are not fulfilled, and this situation is not remedied before the end of the year, the long-term portion of that loan is classified as current debt.

Payables denominated in a foreign currency are aligned at the exchange rate at year end, and the gains or losses deriving from the adjustment are recognized in the income statement.

Derivative financial instruments

Derivatives are classified as "Hedging derivatives" when they meet the requirements for hedge accounting, otherwise, even if they have been taken out with the intent of managing exposure to risks, they are recognized as "Non-hedging derivatives".

In accordance with the provisions of IFRS 9, the Group has availed itself of the option to continue to apply the methods and requirements established for hedge accounting by IAS 39, previously in force, and thus define the hedge effectiveness relationship relating to the derivative financial instrument. Specifically, financial instruments are accounted for based on the hedge accounting methods adopted by the Group, only when their relationship with the hedged item is formally documented and the hedge effectiveness is high (so-called effectiveness test).

The effectiveness of hedging transactions is documented both at the inception of the hedge and periodically thereafter (quarterly or at least at every reporting date) and is measured by comparing changes in the hedging instrument's fair value with those in the hedged item (dollar offset method) for back testing effectiveness. Prospectively testing effectiveness involves developing aggregate discounted cash flows by year for the hedged item and its hedging derivative (regression method).

When hedging derivatives hedge the risk of change in fair value of the hedged instruments (fair value hedges), the derivatives are recognized at fair value through profit or loss.

The effective portion of changes in the fair value of cash flow hedges, which hedge the exposure to changes in cash flows for the items hedged, is recognized in other comprehensive income and presented in the hedging reserve. The ineffective portion of changes in the fair value of the derivative financial instrument is immediately recognized in profit/loss for the year. If the derivative instrument is sold or no longer qualifies as an effective hedge of the risk for which it was taken out or if the underlying transaction is no longer highly probable, the related portion of the hedging reserve is immediately reclassified to profit or loss.

Regardless of the type of classification, derivatives are measured at fair value, determined by valuation

techniques based on market data (such as, *inter alia*, discounted cash flow, forward currency rate method, Black-Scholes formula and its evolutions).

Specifically, this value is determined using specific pricing instruments based on market parameters (i.e. interest rates, exchange rates and volatilities), recognized on individual valuation dates and compared with the figures communicated by the counterparties.

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 may vary from these estimates. Estimates relate mainly to provisions for risks relating to receivables, obsolete inventory, publishing returns, investment measurements, amortization, depreciation, impairment of assets, taxation, provisions for risks 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 intangible assets (including goodwill), the allowance for impairment, inventory write-downs, prepaid and deferred tax, post-employment benefits and the provisions for risks 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.

Determination of the recoverable amount of non-current assets

The Group revises periodically the carrying amount of intangible assets even in the absence of impairment indications, to verify that they are not recorded at a higher amount than their recoverable value. When impairment loss indicators are observed, the carrying amounts of property and plant are also promptly revised. More specifically, goodwill relating to cash generating units and intangible assets with indefinite useful life are measured at least annually even in the absence of impairment indicators.

The recoverable value of the goodwill defined by each impairment test is sensitive to changes in the assumptions used, e.g. the rate of growth of revenue, forecast changes in the EBITDA and, among the valuation parameters, the discount rate (WACC) and the consistency of financial projections beyond the period of the plan (g equal to zero, in nominal terms). In turn, the WACC is sensitive to changes in its own components, including the risk free rate that summarizes country risk.

Allowance for impairment

The allowance for impairment 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, based upon past experience for similar receivable, current and past due dates, losses and receipts, forecast models of expected losses, arising from the careful monitoring of receivables 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 recorded 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.

Provisions for risks and charges

The provisions for risks 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 tax advisers on the probable charge that can be reasonably expected to fulfill the obligation.

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".

Upon consolidation, the financial statements of the foreign subsidiaries in a currency other than the Euro are translated adopting, for the figures of the statement of financial position, the spot exchange rate at the end of the year, and for the income components of the income statement, the average rate of the year. Exchange rate differences are recorded in a separate provision called Translation Reserve.

Risk management

The main fiscal, legal and financial risks the Cairo Communication Group is exposed to, as well as the policies put in place by Management for their management, are explained in Note 36. Reference is made to the Directors' Report for operational and business risks.

Accounting standards, amendments and interpretations effective as of 1 January 2018

IFRS 15 - *Revenue from contracts with customers*

The standard, published by the IASB in May 2014, amended in April 2016 and endorsed by the European Commission in September 2016, introduces a general model to determine whether, when and to what extent revenue is recognized. Specifically, the standard establishes a new model for the recognition of revenue, applied to all contracts stipulated with customers except for those falling within the application of other IAS/IFRS standards as leases, insurance contracts and financial instruments.

The key steps in the accounting of revenue based on this new model are:

- identification of the contract with the customer;

- identification of the performance obligations envisaged in the contract;
- pricing;
- price allocation based on the performance obligations envisaged in the contract;
- the criteria for the recognition of revenue when the entity meets each performance obligation.

The standard supersedes the recognition criteria set out in IAS 18 - *Revenue*, IAS 11 - *Construction contracts*, 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*.

The Group adopted *IFRS 15 Revenue from contracts with customers* as of 1 January 2018, using the cumulative effect approach to avoid restating periods shown in the comparative information and to recognize the effects of the first-time application of the new standard in initial equity for the financial year of first-time application.

The effects of the application of the new standard are basically restricted to a different presentation of costs and revenue as a result of the valuation of the principal/agent role, with no impact on the consolidated result for the period and on consolidated equity of the Group at 1 January 2018. The difference refers to both distribution and to organization and advertising related to Sporting Events, as well as to certain advertising sales contracts.

Distribution is carried out mainly by companies outside the scope of consolidation, acting as agents with respect to Group companies. The relating distribution premiums, previously recorded as a decrease in gross revenue, have been reclassified, with the introduction of IFRS 15, among Group costs. The sale of publishing products is, therefore, presented gross of such item with a positive effect on revenue of Euro 131.1 million at 31 December 2018.

With regard to organization and advertising related to Sporting Events, as well as certain advertising sales contracts for third-party publishers and the distribution of third-party publishing products, under the new IFRS standard, the Group companies involved have been recognized as agents; therefore, revenue has been netted out to express on such activities only the revenue item achieved by the Group with a negative effect on revenue of Euro 24.3 million at 31 December 2018.

In accordance with the cumulative effect approach, it should be noted that the application of IFRS 15 resulted in 2018 in: (i) an increase in net revenue of Euro 106.8 million (of which Euro 136.5 million attributable to higher revenue from the sale of publications for the adjustment of distribution premiums,

Euro 5.4 million to lower revenue from the distribution of third-party publishing products), Euro 11.6 million to lower advertising revenue, and Euro 12.7 million to lower sundry revenue) and (ii) a corresponding increase in costs for the consumption of raw materials, consumables and supplies (Euro 19.7 million) and services (Euro 87.1 million).

IFRS 9 – *Financial instruments*

IFRS 9, published by the IASB in July 2014 and approved by the European Commission in November 2016, supersedes IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for the classification and measurement of financial instruments, including a new model for calculating impairment of financial assets that also covers expected losses, and new general requirements for hedge accounting. Additionally, it includes provisions for the recognition and derecognition of financial instruments in line with the current IAS 39 and new indications on the rescheduling of loan agreements. With the exception of hedge accounting, retrospective application of the standard is required, while it is not compulsory to provide comparative information. Elements that have already been derecognized at the date of first-time application are excluded from retrospective application. As regards hedge accounting, the standard is generally applied prospectively, with a few limited exceptions. In this context, however, an entity may continue applying the provisions of IAS 39.

IFRS 9 classifies financial assets into three main categories: amortized cost, fair value recognized through profit/(loss) (FVTPL) for the year, fair value recognized in other components of comprehensive income (FVOCI). The categories set out in IAS 39, i.e. assets held to maturity, loans and receivables and available-for-sale assets, are derecognized.

The Group adopted IFRS 9 *Financial Instruments* as of 1 January 2018, making use of the exemption that allows an entity not to recalculate prior-years' comparative information regarding changes in classification and measurement, including impairment losses. Differences in the carrying amounts of financial assets and liabilities arising from the adoption of IFRS 9 are recognized in retained earnings as of 1 January 2018. Additionally, with regard to hedge accounting, the Group intends to continue applying the provisions of IAS 39.

The effect on initial equity produced a reduction of Euro 0.9 million, net of the tax effect (Euro 0.6 million on the Group's equity) as a result of a reduction in receivables of Euro 1.2 million, with no significant changes in the income statement figures for 2018. Specifically, the adjustment reducing retained earnings refers to the recognition of additional, and possible, losses due to impairment of financial assets arising from the application of the *expected credit loss* model introduced by IFRS 9,

superseding the *incurred credit loss* model under IAS 39. Based on this new model, an analysis was also performed on financial assets not past due, for which there is no evidence of actual impairment. For this purpose, the relevant balances were subdivided according to common credit characteristics such as: rating class, segment and geographic area to highlight any possible signs of future default. On the basis of these assessments, the relevant impairment percentages for each rating class were identified referring to trade receivables, other receivables, financial receivables and cash. These percentages represent the point of view of the Group regarding expected losses over the next 12 months.

Changes in the contractual terms of a financial liability or a part thereof of a "substantial" nature give rise, both currently with IFRS 9 and previously with IAS 39, to a derecognition of the financial liability, while the accounting treatment of a non-substantial change, in accordance with IFRS 9, requires the gross value of the financial liability to be recalculated and recognized in the income statement.

On 10 October 2018, RCS MediaGroup S.p.A. signed an amending agreement with the pool of banks to the existing Loan Agreement at better terms, as explained in the section "Significant events during the year". The renegotiation does not imply a derecognition of the financial liability as it is not “substantive". The effect of the changes determined as explained above generated a gain of Euro 3 million recognized in the income statement under financial income (there would have been no impact if the provisions of IAS 39 had been applied previously).

Based on the new classification criteria, investments in equity instruments with a fair value of Euro 3 million at 31 December 2017 and previously classified as available-for-sale assets, are now booked under "Other non-current equity instruments" and measured at fair value. For each equity instrument, the Group has decided whether such measurement at fair value should be recorded in the income statement (FVTPL) or in the statement of comprehensive income (FVOCI). Such option exercised for each equity instrument is final.

The table below shows a reconciliation between the financial items classified and measured in accordance with IAS 39 and IFRS 9:

Categories of financial instruments	Classification		Amount (*)		Difference	Impact on Group equity at 1 January 2018
	IAS 39	IFRS 9	IAS 39 31/12/2017	IFRS 9 01/01/2018		
Non-current financial assets:						
Other non-current equity instruments	Available-for-sale financial assets	FVOCI	3.0	2.9	(0.1)	-
Other non-current equity instruments	Available-for-sale financial assets	FVTPL	-	0.1	0.1	-
Non-current financial receivables	Receivables and loans	Amortized cost	3.8	3.8	-	-
Other non-current assets	Receivables and loans	Amortized cost	2.1	2.1	-	-
Current financial assets:						
Trade receivables	Receivables and loans	Amortized cost	333.4	332.2	(1.2)	(0.6)
Sundry receivables and other current assets	Receivables and loans	Amortized cost	19.5	19.5	-	-
Current financial receivables	Receivables and loans	Amortized cost	0.9	0.9	-	-
Cash and cash equivalents	Receivables and loans	Amortized cost	128.1	128.1	-	-
Non-current financial liabilities:						
Non-current financial payables and liabilities	Other financial liabilities	Amortized cost	319.1	319.1	-	-
Current financial liabilities:						
Payables to banks	Other financial liabilities	Amortized cost	16.8	16.8	-	-
Current financial payables	Other financial liabilities	Amortized cost	55.1	55.1	-	-
Trade payables	Other financial liabilities	Amortized cost	324.9	324.9	-	-
Sundry payables and other current liabilities	Other financial liabilities	Amortized cost	67.4	67.4	-	-
Hedging derivatives	Fair value - hedging instruments	Fair value - hedging instruments	1.1	1.1	-	-

(*) Amounts for each class identified by IAS 39 classified under IFRS 7

Amendment to IFRS 4: *Applying IFRS 9 Financial instruments with IFRS 4 Insurance Contracts*

In September 2016, the IASB published the document “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”. The amendment, endorsed by the European Commission in November 2017, applies as of 1 January 2018. The amendments to IFRS 4 aim to remedy the temporary accounting effects of the gap between the entry into force of IFRS 9 and the entry into force of the new accounting standard on insurance contracts that supersedes IFRS 4 (IFRS 17).

The amendments to IFRS 4 authorize entities whose predominant activity is issuing insurance contracts to defer the date of application of IFRS 9 to 1 January 2021 and continue to use IAS 39 Financial Reporting Standard: recognition and measurement. The amendments to IFRS 4 also allow entities which issue insurance contracts to remove, from the profit (loss) for the period, reclassifying to equity (OCI), a part of the additional accounting mismatches and temporary volatility which may appear when they apply IFRS 9 before the implementation of IFRS 17.

Improvements to IFRS: *2014-2016 Cycle*

On 8 December 2016, the IASB published the document *“Improvements to IFRS: 2014-2016 Cycle"* approved by the European Commission in February 2018. The main amendments regard:

- IFRS 1: *First-time Adoption of International Financial Reporting Standards* - The amendments

delete a number of exemptions provided by IFRS 1, as they have not served their intended purpose.

- IAS 28: *Investments in Associates and Joint Ventures* - The amendment clarifies that the election to measure at fair value through profit or loss (rather than at equity) an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. Entities that are not investment entities may measure investments in associates and joint ventures that are investment entities using the equity method, maintaining the fair value measurements made by the latter with regard to their investments.

Amendment to IFRS 2: *Classification and Measurement of Share-based Payment Transactions*

In June 2016, the IASB published the amendments to IFRS 2 "*Classification and Measurement of Share-based Payment Transactions*", endorsed by the European Commission in February 2018, which aim to clarify the accounting of certain types of share-based payment transactions. At 31 December 2018, the Group had no transactions in place attributable to such types.

Amendment to IAS 40 Investment Property: *Transfer of Investment Property*

In December 2016, the IASB published "Amendment to IAS 40 Investment Property: *Transfers of Investment Property*", which clarifies the provisions relating to changes in the use of an asset that lead to qualifying an asset that does not constitute an investment property as such or vice versa. Based on these amendments, an entity must reclassify an asset to, or from, investment property solely when the asset meets or ceases to meet the definition of "investment property" and there has been a clear change in use of the asset. This change must be tied to a specific event that has occurred and, thus, should not be limited to a change in Management's intentions for the use of the asset. The new provisions had no impact on the Annual Report of the Group at 31 December 2018.

IFRIC Interpretation 22: *Foreign Currency Transactions and Advance Consideration*

In December 2016, the IASB published the document "*IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration*" to provide indications on how an entity shall determine the date of a transaction, and consequently the exchange rate to be used when foreign currency transactions take place, in which payment is made or received in advance.

The adoption of this interpretation had an immaterial effect on the Group's net profit for 2018.

Accounting standards, amendments and interpretations endorsed by the EU and applicable from financial periods beginning on 1 January 2019

IFRS 16 – *Leases*

In January 2016, the IASB published IFRS 16 *Leases.* The new standard, endorsed by the European Commission in October 2017, establishes a new single model of recognition and measurement of leases for the lessee, without making any distinction between operating leases and finance leases. Specifically, it provides for the recognition of the right of use of the underlying asset with the assets in the statement of financial position with a balancing entry in financial liabilities. The standard provides the possibility of not recognizing contracts as leases that involve low-value assets (i.e. leases relating to assets with a value of less than USD 5 thousand) and leases with a term equal to or less than 12 months. Conversely, the standard introduces no material changes for the lessor. The standard introduces a criterion based on the control of the use of an asset to distinguish leases from service contracts, identifying the following distinguishing factors:

- identification of the asset granted for use (i.e. without a right of replacement thereof by the lessor);
- the right to obtain substantially all economic benefits deriving from use of the asset;
- the right to establish how and why the asset is to be used.

The standard applies as of 1 January 2019, but early application is allowed. First-time application allows use of the full retrospective method (with restatement of comparative information) or the modified retrospective method (with the cumulative effect of the adoption of IFRS 16 recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, without restatement of comparative information).

The Group will apply the standard as of 1 January 2019.

The Group has completed its review of the contracts potentially affected by this standard. There are approximately 800 such contracts, mainly signed in Italy and attributable to approximately 50 different parties. Of these contracts, approximately 230 can be classified as short term or low value leases; the option for these contracts was not to apply the recognition and measurement provisions under IFRS 16.

Short-term leases refer mainly to the classes of assets: motor vehicles and office equipment.

For such contracts, the introduction of IFRS 16 will not imply the recognition of the financial liability of the lease and the relating right of use, but lease payments will be recognized in the income statement on a straight-line basis for the duration of the respective contracts.

The remaining contracts relate mainly to the rental of real estate and company cars used by employees. Lastly, a few minor contracts (in terms of amounts, duration and number) refer to operating leases of plant and machinery, furniture and office machinery.

In performing its analysis, the Company has identified the components of the contracts or the contracts themselves, the lease of which can be traced back to a service contract or a license concession, and has applied IFRS 15 to these cases, excluding them from the scope of IFRS 16.

No sale and leaseback transactions were identified.

The Company, as lessee, will adopt the abovementioned modified retrospective method. Specifically, the Company will record, with regard to the lease contracts previously classified as operating:

- a financial liability, equal to the present value of the remaining future payments at the transition date, discounted using for each contract the incremental borrowing rate applicable at the transition date;
- a right of use equal to the amount of the financial liability at the transition date, net of any accrued income and prepaid expenses relating to the lease and recorded in the balance sheet at the balance sheet date of these financial statements.

assessments are underway, restricted to certain property rental contracts, regarding the possible valuation (as an exception to the transition method generally applied by the Company) of the right of use, by applying discounting from the effective date of the contracts, while maintaining the same IBR used in calculating the financial liability. This accounting treatment (known as cherry picking) at 1 January 2019 would have a decreasing impact on equity as a result of the difference arising from the right of use, calculated in this manner, and the financial liability. The estimated impact is approximately Euro 16 million.

The financial liability emerging from the application of the *modified retrospective* method was discounted using an IBR *(Incremental Borrowing Rate*) consistent with the maturity of the underlying

contracts. The different IBRs range from slightly less than 1% to approximately 2.5%.

In applying the lease accounting method, Management also assessed the definition of the lease term or the duration of the contracts, identifying *the non-cancellable* period of the lease and integrating it to take account of any extension options, the exercise of which is reasonably certain.

The leases recorded in the financial statements at 31 December 2018 in application of IAS 17, were reviewed to ascertain whether by applying the new provisions of IFRS 16 they should have been subject to changes regarding their duration or any service obligation components included in the contracts, concluding that, in the manner presented in the financial statements at 31 December 2018, these leases will not be subject to changes in treatment in 2019.

The estimated financial liability resulting from the application of IFRS 16, calculated as explained above, amounted to approximately Euro 220 million. The amount includes the effects of the lease of the property in Via Solferino, without prejudice to the comments made in Note 36 below "Commitments, risks and other information".

The table below shows the estimated impacts of the adoption of IFRS 16 at the transition date, without taking into account the ongoing assessments of the possible application of *cherry picking:*

Description (€ millions)	**Impact at transition date 1 January 2019**
ASSETS	
Usage rights property	197
Usage rights plant and machinery	-
Usage rights equipment	-
Usage rights motor vehicles	8
Usage rights other assets	15
Total non-current assets	**220**
TOTAL ASSETS	**220**
EQUITY AND LIABILITIES	
Retained earnings	-
Total equity attributable to the owners of the parent	-
Financial liabilities for non-current leases	193
Total non-current liabilities	**193**
Financial liabilities for current leases	27
Total current liabilities	**27**
TOTAL EQUITY AND LIABILITIES	**220**

It should be noted that the estimated effects of the adoption of IFRS 16 as commented above, may be subject to change up to the presentation of the Company's first financial statements, which include the date of first-time application, also in light of guidelines that may arise at a later time on certain situations that are more exposed to the interpretations of the standard, as well as for the implementation of the IT solutions identified in support of the business processes involved.

As required by ESMA's Public Statement of 26 October 2018, a reconciliation is given below of operating lease commitments, the amount of which is shown in Note 36 below, under IAS 17, and the emerging liability under IFRS 16.

Description (€ millions)	**Impact at transition date 1 January 2019**
ASSETS	
Commitments for operating leases at 31 December 2018	282
Commitments for lease payments - renewal options	16
Reduction for exemption - short term leases	(1)
Reduction for exemption - low value assets	-
Reduction for services out of IFRS 16 included in lease contracts (service components)	-
Increase for variable components of lease payments	-
Other changes (*)	(49)
Gross value of lease liabilities at 1 January 2019 - before application of IFRS 16	**247**
Discounting	(27)
Lease liabilities at 1 January 2019 - before application of IFRS 16	**220**
Present value of financial leases at 31 December 2018 ex IAS 17	4
Lease liabilities at 1 January 2019	**224**

(*) These refer to lease payments relating to contracts not covered by IFRS 16.

Amendment to IFRS 9 – *Financial instruments: Prepayment features with negative compensation*

In October 2017, the IASB published the amendments to IFRS 9 "Prepayment features with negative compensation" endorsed by the European Commission in March 2018. To clarify the classification of certain financial assets that can be repaid early on the application of IFRS 9, these amendments allow the measurement at amortized cost or at fair value through other comprehensive income (OCI) of financial assets with prepayment features through "negative compensation". The amendments apply to financial periods beginning on 1 January 2019.

IFRIC 23 - *Uncertainty over Income Tax Treatments*

The interpretation IFRIC 23 - Uncertainty over income tax treatments, published by the IASB in June

2017, was endorsed in October 2018.

This interpretation clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty over income tax treatments.

IFRIC 23 applies to uncertainties over income tax. Therefore, any uncertainties over other tax and duties (e.g. VAT, excise duties, etc.) do not fall within the scope of application.

Uncertainties over the calculation of income tax should not be reflected in the balance sheet in a provision for risks, but should be included in the calculation of assets/liabilities from current/deferred tax.

Income tax-related assets (e.g. payment of a tax demand for an ongoing tax dispute) will be kept in the financial statements if it is likely that the taxation authority will accept the tax treatment adopted by the entity. Entities need not demonstrate that the recovery of the asset is virtually certain.

The new interpretation applies as of 1 January 2019, but early application is allowed.

Amendment to IAS 28 *Investments in associates: Long-term Interests in Associates and Joint Ventures*

The amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*, published by the IASB in October 2017, aim to clarify that IFRS 9 also applies to long-term interests in an associate or joint venture essentially forming part of the net investment in the associate or joint venture.

The IASB also published an example that shows how the provisions of IFRS 9 and IAS 28 apply to long-term interests in an associate or joint venture.

The amendments apply to financial periods beginning on 1 January 2019.

Accounting standards, amendments and interpretations not yet endorsed by the EU

Improvements to IFRS: *2015-2017 Cycle*

In December 2017, the IASB published the document *"Improvements to IFRS:* 2015-2017 Cycle". The main amendments regard:

- IFRS 3 - *Business Combination and IFRS 11 – Joint Arrangements* - The amendments to IFRS 3 clarify that when an entity obtains control of a joint operation, it must recalculate the fair value of the interest previously held in this joint operation. The amendments to IFRS 11 clarify that

when an entity obtains joint control of a joint operation, the entity does not recalculate the fair value of the interest previously held in such joint operation;

- IAS 12 - *Income tax consequences of payments on financial instruments classified as equity* - The proposed amendments clarify how an entity must recognize any tax effects deriving from the distribution of dividends;
- IAS 23 – *Borrowing costs eligible for capitalization* - The amendments clarify that where funds borrowed specifically for the acquisition and/or construction of an asset remain in place even after the asset itself is ready for use or sale, such funds cease to be considered specific and are included in the entity's general funding in order to determine the capitalization rate of the funds borrowed.

The amendments apply to financial periods beginning on 1 January 2019. Early application is allowed.

Amendment to IAS 19 - *Plan Amendment, Curtailment or Settlement*

In February 2018, the IASB published the amendments to IAS 19 *"Plan Amendment, Curtailment or Settlement"* to clarify how current service cost and net interest are determined when a change occurs in the defined benefit plan.

The amendments apply to financial periods beginning on 1 January 2019. Early application is allowed.

Amendment to IFRS 3 - Definition of a Business

In October 2018, the IASB published *Definition of a Business (Amendments to IFRS 3)* with the aim of helping to determine whether a transaction is an acquisition of a business or group of businesses that does not meet the business definition of IFRS 3.

The amendments will apply to acquisitions after 1 January 2020. Early application is allowed.

Amendment to IAS 1 and IAS 8 - Definition of Material

In October 2018, the IASB published the amendment *Definition of Material (Amendments to IAS 1 and IAS 8)* which aims to clarify the definition of "material" in order to assist entities in assessing the significance of information to include in financial statements.

The amendments will apply as of 1 January 2020. However, early application is allowed.

IFRS 17: *Insurance Contracts*

In May 2017, the IASB published IFRS 17 - Insurance Contracts, which supersedes IFRS 4, issued in 2004. IFRS 17 applies to all types of insurance contracts, regardless of the type of entity that issues them, as well as to certain guarantees and financial instruments with discretionary participation features.

The overall objective of IFRS 17 is to provide a more useful and consistent accounting model for insurance contracts among entities issuing insurance contracts. Unlike the provisions of IFRS 4, which are based mainly on maintaining previous accounting policies, IFRS 17 provides a comprehensive model for insurance contracts covering all relevant accounting aspects.

The standard is effective as of 1 January 2021, but early application is allowed.

IFRS 14: *Regulatory Deferral Accounts*

IFRS 14, issued by the IASB in January 2014, allows an entity, whose activities are subject to rate regulation, to continue applying, on first-time adoption of the IFRS, the previous accounting standards adopted for the amounts relating to rate regulation. IFRS 14 came into force on 1 January 2016, but the European Commission has suspended the endorsement process, pending the new standard on "rate-regulated activities". The standard does not apply to the Group.

Amendment to IFRS 10 *Consolidated financial statements and IAS 28 Investments in associates and joint ventures.*

The changes arising from the amendment issued by the IASB in September 2014 address the inconsistency between IFRS 10 and IAS 28 over the loss of control of a subsidiary that is sold or transferred to an associate or a joint venture. The amendments clarify that any gain or loss on the sale or from the contribution of assets that constitute a business, as set out in IFRS 3, between an investor and an associate or joint venture, must be recognized in full. Any gain or loss on the sale or from the contribution of assets that do not constitute a business is recognized only to the extent of the portion held by third-party investors in the associate or joint venture. With a further adjustment in December 2015, the IASB cancelled the previous date of first-time application set for 1 January 2016, deciding to determine it at a later date.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

The following is the analysis of the main items of revenue and cost for the year ended 31 December 2018. All the figures are shown in Euro millions. The comparative figures refer to the Annual Report at

31 December 2017.

As of 1 January 2018, the Group adopted IFRS 15 - *Revenue from contracts with customers*, which resulted in a different presentation of costs and revenue, as a result of the valuation of the principal/agent role, with no impact on the result for the period or on equity at 1 January 2018. This new standard was adopted using the cumulative effect approach and, therefore, not applying its provisions to the period shown for comparative purposes. As a result, the 2018 income statement cannot be directly comparable with the 2017 income statement. In 2018, the application of IFRS 15 resulted in: (i) an increase in net revenue of Euro 106.8 million and in (ii) a corresponding increase in costs for the consumption of raw materials, consumables and supplies (Euro 19.7 million) and services (Euro 87.1 million).

1. Net revenue

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

Description	31/12/2018	31/12/2017
Gross operating revenue	1,299.5	1,186.2
Advertising agency discounts	(75.4)	(76.8)
Net operating revenue	**1,224.1**	**1,109.4**

Revenue is generated mainly in Italy and in Spain. An analysis of revenue by business segment is provided in Note 13.

The breakdown of gross operating revenue can be analyzed as follows:

Description	31/12/2018	31/12/2017
TV advertising	151.0	143.0
Advertising on print media, Internet and sporting events	485.3	491.7
Other TV revenue	10.1	10.0
Magazine over-the-counter sales and subscriptions	530.8	416.1
VAT relating to publications	(6.8)	(6.3)
Other revenue	129.2	131.7
Total gross operating revenue	**1,299.5**	**1,186.2**

Gross operating revenue, amounting to Euro 1,299.5 million, increased by Euro 8.5 million, net of the effects of the first-time adoption of IFRS 15 (Euro 104.8 million in higher revenue).

As explained more in detail in the Directors' Report, in the year under review:

- circulation revenue (including the subscription portion) amounted to Euro 530.8 million, Euro 437.7 million of which attributable to the RCS Group and Euro 93.1 million to Cairo Editore magazines;
- gross advertising sales from Group publications, Group websites and sporting events amounted to Euro 485.3 million, attributable mainly to the RCS Group (Euro 453.3 million) and to Cairo Editore magazines (Euro 25.5 million);
- gross advertising sales on La7 and La7d channels amounted to Euro 149.2 million (Euro 137.8 million in 2017), while the contribution of the Digicast channels of RCS amounted to Euro 1.8 million;
- net advertising revenue (net of agencies discount of Euro 75.4 million) amounted to Euro 560.9 million, attributable to the RCS Group for Euro 405.8 million.

Other revenue, amounting to Euro 129.2 million, mainly includes revenue from the broadcasting of two television channels through the multiplex owned by the subsidiary Unidad Editorial, revenue from sporting events and from direct marketing activities, revenue from betting activities carried out in Spain through the Marca Apuestas platform and other operating revenue.

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2. Other revenue and income

"Other revenue and income", amounting to Euro 25.9 million (Euro 26.1 million in 2017), Euro 18.2 million of which attributable to the RCS Group (Euro 20.9 million in 2017), includes revenue from pulp and paper sales, charging of technical advertising costs, rental income, prior-year income, and other items of revenue other than operating revenue.

This item includes Euro 2.6 million in non-recurring income earned by RCS Sport following the settlement agreement of a dispute.

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3. Change in inventory of finished products

The item, amounting to Euro 0.3 million (Euro -0.3 million in 2017), arises from the use of the magazine sales during the ordinary course of business relating to Group companies.

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4. Raw materials, consumables and supplies

The details of costs for raw materials, consumables and supplies are as follows:

Description	31/12/2018	31/12/2017
Paper	76.9	73.5
Set design materials	0.1	-
Finished products, equipment and sundry materials	48.0	33.7
Total raw materials, consumables and supplies	**125.0**	**107.2**

The item, amounting to Euro 125 million, refers mainly to the publishing activities of Cairo Editore and the RCS Group, and decreases by Euro 1.9 million, net of the effects of the first-time adoption of IFRS 15 (higher costs of Euro 19.7 million).

RCS Group's costs for raw, ancillary and consumable materials amounted to Euro 103.9 million and, net of the effects of IFRS 15, shows a decrease of Euro 2.3 million versus 2017.

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5. Services

The item mainly comprises direct costs of advertising agencies, external processing, consultancies and collaborations mainly for bordereau, TV costs, promotion costs, organization costs and overheads. Costs of services are broken down as follows:

Description	31/12/2018	31/12/2017
Direct brokerage costs	48.6	52.0
Technical costs	1.7	1.2
Professional services, consulting and other administrative costs	27.6	32.9
Consultancies and collaborations	46.6	50.3
External processing	89.6	95.0
Transport costs	144.9	40.9
Sub-contracted TV programmes	22.7	20.9
Professional and artistic services and other TV consulting	8.8	8.0
Shooting, crew, editing, and outdoor TV activities	1.0	1.0
News and sport information services and TV news agency	1.6	1.7
TV broadcasting services	0.2	0.4
TV artwork	0.7	0.5
Outdoor TV links	0.9	0.8
Advertising and launch promotion costs	0.4	-
Advertising and promotion	44.2	59.0
Organizational costs and overheads	92.5	98.2
Total services	**532.0**	**462.8**

The item, amounting to Euro 532 million (Euro 462.8 million in 2017), shows an increase of Euro 69.2 million versus the prior year. The negative effect from the first-time application of the new IFRS 15, totaling Euro 87.1 million, was partly offset by savings of Euro 17.9 million thanks to the ongoing cost containment and efficiency recovery actions.

Cost of services attributable to the RCS Group amounted to Euro 393.1 million (Euro 355.2 million in 2017), with a negative impact of Euro 62 million arising from the adoption of IFRS 15. Net of this effect, costs amounted to Euro 330.8 million and relate mainly to the direct costs of the advertising agency of Euro 37.2 million (Euro 37.9 million in 2017), administrative costs of Euro 23.5 million (Euro 29.6 million in 2017), publishing collaborations of Euro 34.7 million (Euro 37.3 million in 2017), external publishing and print processing of Euro 73.9 million (Euro 78.1 million in 2017), transport costs of Euro 34.8 million (Euro 40.8 million in 2017), to advertising and promotion expenses of Euro 41.4 million (Euro 50.9 million in 2017), and to organization costs and overheads of Euro 85.2 million (Euro 80.6

million in 2017).

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6. Use of third-party assets

The item amounts to Euro 65.2 million (Euro 60.9 million at 31 December 2017) and mainly includes costs for journalistic, sport and TV programme rights, lease payments for property, office equipment and royalties for copyrights.

Description	31/12/2018	31/12/2017
Lease payments for property	26.5	25.3
Rental of TV studios	0.4	0.4
Rental fees for TV studio equipment	0.8	0.6
TV programme rights	1.1	0.4
Sport rights	0.2	0.1
Journalistic rights	2.1	1.7
Copyrights (SIAE, IMAIE, SCF, AFI)	3.6	3.4
Royalty expense and sundry rights	20.4	17.6
Other costs for use of third-party assets	10.1	11.4
Total costs for use of third-party assets	**65.2**	**60.9**

The item includes costs for the use of third-party assets attributable to the RCS Group of Euro 52.9 million (Euro 49.6 million in 2017), consisting mainly of lease payments for property of Euro 23.8 million (Euro 22.1 million in 2017), literary rights and photographic reports of Euro 19.6 million (Euro 16.8 million in 2017), and of operating leases for the use of office equipment and motor vehicles of Euro 9.5 million (Euro 10.7 million in 2017).

The Euro 4.3 million increase versus 31 December 2017 is due mainly to higher rental costs (Euro 1.6 million) mainly for the headquarters in Avenida de San Luis in Madrid, higher costs for journalistic, sport and TV programme rights (Euro 1.2 million), and higher costs incurred for the acquisition of rights (Euro 1.8 million), in particular for the subsidiary Unidad Editorial Juegos S.A.

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7. Personnel expense

The item can be analyzed as follows:

Description	31/12/2018	31/12/2017
Wages and salaries	240.5	232.9
Social security charges	77.0	74.1
Post-employment benefits	12.0	11.3
Other personnel expense	0.3	3.1
Total	**329.8**	**321.4**

Personnel expense amounted to Euro 329.8 million (Euro 321.4 million in 2017) and includes personnel expense of Euro 264.7 million attributable to the RCS Group (Euro 258.1 million in 2017). The increase in these costs versus the prior year is due mainly to the conclusion in Italy, between the second half of 2017 and 2018, of the crisis situations and consequently to the use of social safety nets and/or solidarity contracts by RCS.

This item also includes non-recurring expense of Euro 1.8 million.

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8. Amortization, depreciation, provisions and impairment losses

This item can be analyzed as follows:

Description	31/12/2018	31/12/2017
Amortization of intangible assets	33.7	39.5
Depreciation of property, plant and equipment	12.7	15.4
Impairment losses on intangible assets	-	-
Allowance for impairment	3.4	4.2
Provisions for risk and charges	5.7	7.0
Total amortization, depreciation, provisions and impairment losses	**55.5**	**66.1**

The item, amounting to Euro 55.5 million (Euro 66.1 million in 2017) shows a decrease of Euro 10.6 million and includes amortization, depreciation, provisions and write-downs attributable to the RCS Group for Euro 42.2 million (Euro 52.3 million in 2017)

It should be noted that:

- the acquisition of La7 S.p.A. had been accounted for under IFRS 3, applying the so-called "acquisition method", taking into account the future income capacity of La7 S.p.A. 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. In 2018, as a result of impairments made in the allocation of the purchase price of the investment in La7 S.p.A. in the consolidated financial statements, with respect to the separate financial statements of La7 S.p.A., lower levels of depreciation of "property, plant and equipment" - Euro 0.5 million - and amortization of “intangible assets” - Euro 1.1 million - were recognized (Euro 1.1 million and Euro 2.2 million in 2017);
- amortization attributable to the amounts allocated to intangible assets (previously unrecognized) with finite useful life under the “acquisition method" in the business combination of RCS, amounted for the period ended 31 December 2018 to Euro 2.2 million;
- in the business combination of RCS, the fair value had been confirmed for a number of Spanish magazines, corresponding to the amount booked in the consolidated financial statements of the RCS Group, net of accumulated amortization. These titles, which had residual useful life of 19 years in the consolidated financial statements of the RCS Group, have been valued with finite useful life of 30 years, taking also into account national and international practice. As a result, 2018 reported lower amortization of Euro 0.2 million than the figure recognized in the same period in the Annual Report of the RCS Group.

Goodwill and titles with indefinite useful life are not amortized, but are tested at least annually to identify any impairment losses.

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9. Other operating costs

The item can be analyzed as follows:

Description	31/12/2018	31/12/2017
Deductible and non-deductible tax during the year	6.6	5.3
Prior-year expenses	0.4	1.0
Other operating expense	10.6	9.9
Total other operating costs	**17.6**	**16.2**

Other operating costs include membership fees, contributions, entertainment expenses, donations and transaction costs, up by Euro 1.4 million versus the prior year. Other operating costs borne by the RCS Group amounted to Euro 16.1 million (Euro 14 million in 2017).

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10. Other income (expense) from financial assets/liabilities

This item can be analyzed as follows:

Description	31/12/2018	31/12/2017
Gains on sale of equity investments	-	15.3
Impairment losses on financial assets	-	(0.3)
Other	1.5	1.2
(Write-down) reinstatement of receivables and other financial assets	(2.4)	-
Total other income (expense) from financial assets/liabilities	**(0.9)**	**16.2**

At 31 December 2017, “Gains on sale of equity investments” included Euro 14.9 million referring to the gain from the disposal of the investment in Istituto Europeo di Oncologia S.r.l..

At 31 December 2018, “Other" included income from the liquidation of Emittenti Titoli S.p.A. (Euro 1.5 million), while “Impairment of receivables and other financial assets" referred to write-downs of financial receivables from printing centres (Euro 2.4 million).

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11. Net financial income (expense)

Net financial expense amounted to Euro 14.5 million (Euro 24.8 million in 2017) and includes the financial expense of Euro 14.1 million of the RCS Group (Euro 24.5 million in 2017), and expense from

the loan of Euro 0.4 million (Euro 0.4 million in 2017) granted by Intesa Sanpaolo to the Parent Company as part of the acquisition of the control of RCS. The item also includes interest income on fixed-term deposits on current accounts and on treasury bank accounts used to employ liquidity.

With regard to the RCS Group, net financial expense decreased by Euro 10.4 million versus 2017. The reduction is attributable to lower interest expense on bank loans, due to the reduction in average debt for the period, and to lower interest rates.

The details of this item are as follows:

Description	31/12/2018	31/12/2017
Interest income on bank accounts, loans and receivables	0.5	0.4
Other	4.2	2.2
Total financial income	**4.7**	**2.6**
Bank interest expense	(0.2)	(0.8)
Interest income on loans	(6.7)	(11.5)
Losses on derivatives	(1.2)	(3.6)
Other financial expense	(11.1)	(11.5)
Total financial expense	**(19.2)**	**(27.4)**
Net financial expense	**(14.5)**	**(24.8)**

“Other financial expense” includes financial expense from discounting and bank expenses and fees.

With regard to the renegotiation of the RCS Loan Agreement in 2017, the analyses carried out, also in light of the new IFRS 9, resulted in the classification of the effects of the renegotiation dated August 2017 as an extinguishment (rather than a modification) leading to the recognition of an expense of approximately Euro 2.5 million recorded under financial expense for 2018. On 10 October 2018, RCS MediaGroup S.p.A. signed an Amending Agreement to the existing Loan Agreement at far better conditions which, under the new IFRS 9 with regard to credit line A *(Amortizing Term)*, resulted in a gain of Euro 3 million recorded in the income statement under financial income, instead of being reflected in the actual cost of the loan in future years as under IAS 39.

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12. Tax for the year

Tax for the year had a balance of Euro 14.7 million (Euro 10.8 million in 2017) and can be analyzed as

follows:

Description	31/12/2018	31/12/2017
IRES	(0.4)	1.3
IRAP	5.4	4.4
Deferred tax income and expense	9.7	5.1
Total income tax	**14.7**	**10.8**

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

Description	31/12/2018	31/12/2017
Profit (loss) before tax	111.8	94.1
Theoretical tax expense	26.8	22.6
Tax effects from the consolidation and the purchase price allocation of La7 and RCS	(0.6)	(7.6)
Tax effects of other permanent differences	(16.9)	(9.2)
IRAP	5.4	5.0
Current and deferred income tax for the year	**14.7**	**10.8**

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 profit before tax, and this would generate a distorting effect between one financial period and the other. The theoretical tax charge has been calculated using the current IRES tax rate of 24%.

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13. 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 six reportable business segments:

– **magazine publishing Cairo Editore**, the Group operates as a publisher of magazines and books through its subsidiaries (i) Cairo Editore - which incorporated Editoriale Giorgio Mondadori in 2009 and publishes weeklies "Settimanale DIPIU'" and "DIPIU' TV", supplements "Settimanale DIPIU' e DIPIU'TV Cucina e Stellare", "Diva e Donna" and the fortnightly "Diva e Donna

Cucina", "TV Mia", "Nuovo", "F", "Settimanale Giallo", "Nuovo TV", "Nuovo e Nuovo TV Cucina", "Enigmistica Più" and "Enigmistica Mia" and monthlies "For Men Magazine", "Natural Style", Bell'Italia", "Bell'Europa", "In Viaggio", "Airone", "Gardenia", "Arte" and "Antiquariato" - and (ii) Cairo Publishing, publisher of books;

– **RCS**, as explained above, in 2016, following the acquisition of the control of RCS, the Group landed in the dailies publishing segment. RCS, both directly and indirectly through its subsidiaries, publishes and distributes - in Italy and Spain - daily newspapers and magazines (weeklies and monthlies), and is also involved in print media and online advertising sales, and in the distribution of editorial products at newsstands. In Italy, RCS has also minor operations on the pay TV market through its subsidiary Digicast S.p.A. on the TV satellite channels *Lei*, *Dove*, *Caccia* and *Pesca*, and on the web TV channel of *Corriere della Sera* and *La Gazzetta dello Sport*.

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

  RCS also organizes, through RCS Sport, major world sporting events (the *Giro d'Italia*, the *Dubai Tour*, the *Milano City Marathon* and the *Color Run*), and is well-positioned as a partner in the creation and organization of events through RCS Live. In Spain, through its subsidiary Last Lap, RCS is involved in the organization of mass events;

– **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 and Boomerang), on the Internet and for the sale of stadium advertising spaces at the "Grande Olimpico Torino" football pitch for Torino FC;

– **TV publishing (La7)**, 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 acquiring 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 started operations as a network operator;

– **Il Trovatore,** which provides technological services mainly within the Group.

2018 (€ millions)	Magazine publishing Cairo Editore	Advertising	TV publishing La7	Network operator (Cairo Network)	RCS	Trovatore	Intra and un allocated	Total
Net operating revenue	**111.4**	**157.8**	**106.8**	**12.0**	**975.6**	**0.9**	**(140.4)**	**1,224.1**
Change in inventory	0.0	-	-	-	0.3	-	-	0.3
Other income	2.4	0.6	4.7	0.1	17.2	0.0	(1.6)	23.3
Total revenue	**113.8**	**158.4**	**111.5**	**12.1**	**993.1**	**0.9**	**(142.0)**	**1,247.8**
Production cost	(85.8)	(148.3)	(67.5)	(10.3)	(569.1)	(0.7)	142.0	(739.7)
Personnel expense	(19.5)	(9.9)	(35.5)	(0.1)	(262.9)	(0.1)	-	(328.0)
Income (expense) from equity-accounted investees	-	-	-	-	2.5	-	-	2.5
Non-recurring income (expense)	-	-	-	-	0.2	-	-	0.2
Gross operating profit (EBITDA)	**8.5**	**0.2**	**8.6**	**1.7**	**163.8**	**0.1**	**0.0**	**182.8**
Amortization, depreciation, provisions and impairment losses	(1.0)	(0.3)	(9.8)	(2.2)	(42.2)	0.0	-	(55.5)
EBIT	**7.5**	**(0.1)**	**(1.2)**	**(0.5)**	**121.6**	**0.1**	**0.0**	**127.3**
Other income (expense) from financial assets/liabilities	-	-	-	-	(0.9)	-	-	(0.9)
Net financial income	0.0	(0.5)	0.1	(0.0)	(14.1)	(0.0)	-	(14.5)
Profit (loss) before tax	**7.5**	**(0.6)**	**(1.1)**	**(0.6)**	**106.6**	**0.1**	**0.0**	**111.9**
Income tax	(1.6)	(0.1)	1.5	0.1	(14.6)	(0.0)	-	(14.7)
Profit from continuing operations	**6.0**	**(0.8)**	**0.4**	**(0.5)**	**92.0**	**0.1**	**0.0**	**97.2**
Profit (loss) from discontinued operations	-	-	-	-	-	-	0.2	0.2
Profit for the year	**6.0**	**(0.8)**	**0.4**	**(0.5)**	**92.0**	**0.1**	**0.2**	**97.4**
Non-controlling interests	**-**	**-**	**-**	**-**	**37.1**	**0.0**	**-**	**37.1**

2017 (€ millions)	Magazine publishing Cairo Editore	Advertising	TV publishing La7	Network operator (Cairo Network)	RCS	Trovatore	Intra and un allocated	Total
Net operating revenue	**90.1**	**148.7**	**99.1**	**7.9**	**891.0**	**0.9**	**(128.4)**	**1,109.4**
Change in inventory	0.0	-	-	-	(0.3)	-	-	(0.3)
Other income	2.9	0.8	2.3	0.1	20.9	0.0	(0.9)	26.1
Total revenue	**93.0**	**149.5**	**101.4**	**8.0**	**911.6**	**0.9**	**(129.2)**	**1,135.2**
Production cost	(61.1)	(140.0)	(60.0)	(7.3)	(505.4)	(0.7)	129.2	(645.3)
Personnel expense	(19.7)	(9.1)	(34.4)	(0.2)	(258.1)	(0.0)	-	(321.4)
Income (expense) from equity-accounted investees	-	-	-	-	2.1	-	-	2.1
Non-recurring income (expense)	-	-	-	-	(1.8)	-	-	(1.8)
Gross operating profit (EBITDA)	**12.2**	**0.4**	**7.0**	**0.6**	**148.4**	**0.1**	**0.0**	**168.8**
Amortization, depreciation, provisions and impairment	(1.1)	(0.4)	(10.1)	(2.2)	(52.3)	0.0	-	(66.1)
EBIT	**11.1**	**0.0**	**(3.0)**	**(1.6)**	**96.0**	**0.1**	**0.0**	**102.7**
Other income (expense) from financial assets/liabilities	-	-	-	-	16.2	-	-	16.2
Net financial income	(0.0)	(0.4)	0.2	(0.1)	(24.4)	(0.0)	-	(24.8)
Profit (loss) before tax	**11.1**	**(0.4)**	**(2.9)**	**(1.7)**	**87.8**	**0.1**	**0.0**	**94.1**
Income tax	(3.4)	(0.4)	2.1	0.4	(9.4)	(0.0)	-	(10.8)
Profit from continuing operations	**7.7**	**(0.8)**	**(0.8)**	**(1.3)**	**78.4**	**0.1**	**0.0**	**83.3**
Profit (loss) from discontinued operations	-	-	-	-	-	-	-	-
Profit for the year	**7.7**	**(0.8)**	**(0.8)**	**(1.3)**	**78.4**	**0.1**	**0.0**	**83.3**
Non-controlling interests	**-**	**-**	**-**	**-**	**31.3**	**-**	**-**	**31.3**

As of 1 January 2018, the Group adopted IFRS 15 - *Revenue from contracts with customers* using the cumulative effect approach and, therefore, not applying its provisions to the period shown for comparative purposes. As a result, the income statement at 31 December 2018 cannot be directly comparable with the income statement at 31 December 2017. Specifically, in 2018 the application of IFRS 15 resulted:

- for the Magazine Publishing segment, in an increase in net revenue of Euro 25.1 million and a corresponding increase in production costs;
- for the RCS segment, in an increase in net revenue of Euro 81.7 million and a corresponding increase in production costs

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 segments 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. These details are, therefore, not provided in these notes in accordance with the amendment of IFRS 8 - Operating segments.

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14. 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 € millions	**31/12/2018**	**31/12/2017**
Profit from continuing operations attributable to the owners of the parent	60.1	52.0
Profit (loss) from discontinued operations	0.2	-
Profit for the year	**60.3**	**52.0**
Weighted average number of shares outstanding	134,416,598	134,416,598
Weighted average number of treasury shares	(779)	(779)
Weighted average number of shares to calculate earnings per share	**134,415,819**	**134,415,819**
Euro:		
Earnings per share attributable to continuing operations	0.447	0.387
Earnings loss) per share attributable to discontinued operations	0.002	0.000
Net earnings per share	**0.449**	**0.387**

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

NOTES TO THE STATEMENT OF FINANCIAL POSITION

15. Property, investment property, plant and equipment

The movements in PPE can be analyzed as follows:

Description	Land and Property	Plant and equipment	Other assets	Assets under development	Investment property	Total
Carrying amounts at 31/12/2017	**24.4**	**43.7**	**8.7**	**0.1**	**20.7**	**97.7**
Additions	-	2.9	1.7	-	-	4.6
Amortization/Depreciation	(1.8)	(6.9)	(3.4)	-	(0.6)	(12.7)
Other changes	-	-	0.1	(0.1)	-	-
Carrying amounts at 31/12/2018	**22.6**	**39.7**	**7.2**	-	**20.1**	**89.6**

The item, amounting to Euro 89.6 million, shows a drop of Euro 8.1 million versus 31 December 2017. Specifically, the item includes:

- land and properties for Euro 22.6 million, relating primarily to owned industrial buildings as well as improvements made to the offices on Via Rizzoli and Via Solferino and to other third-party industrial buildings;
- plant and equipment amounting to Euro 39.7 million, comprised mainly of production facilities for the printing of newspapers and magazines;
- other assets amounting to Euro 7.2 million, comprised mainly of servers for data storage to support publishing and management systems, personal computers, various electronic devices, furniture and fittings;
- investment property for Euro 20.1 million relating mainly to industrial buildings that are currently unused, located in Madrid, Turin and Piacenza.

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16. Intangible assets

The movements in intangible assets can be analyzed as follows:

Description	Television rights	Concessions, licenses, trademarks and publications	Goodwill	Other intangible assets	Assets under development	Total
Carrying amounts at 31/12/2017	**19.0**	**785.3**	**198.5**	**0.4**	**5.0**	**1,008.2**
Additions	7.0	10.4	-	0.8	1.3	19.5
Amortization, depreciation and impairment losses	(13.2)	(19.9)	-	(0.6)	-	(33.7)
Other changes	2.2	2.6	-	-	(4.8)	-
Carrying amounts at 31/12/2018	**15.0**	**778.4**	**198.5**	**0.6**	**1.5**	**994.0**

Television rights

"Television rights" 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, as well as investments by the subsidiary Digicast S.p.A. in rights for audiovisual works and executive productions broadcast on the satellite channels *Lei*, *Caccia e Pesca* and *DOVE.*

Concessions, licenses, trademarks and publications

"Concessions, licenses, trademarks and titles" at 31 December 2018 mainly included:

- the fair value of Euro 348.8 million attributed to Italian daily newspaper trademarks and titles (with their websites and related trademarks) with indefinite useful life, and the fair value of Euro 295.2 million attributed to Spanish daily newspaper titles with indefinite useful life; RCS publishes the newspapers *Corriere della Sera* and *La Gazzetta dello Sport* in Italy, and the newspapers *El Mundo*, *Marca* and *Expansion* in Spain. In 2018, as explained in the Directors' Report on Operations, *Corriere della Sera*, *La Gazzetta dello Sport*, *Marca* and *Expansión* continue to lead their respective segments, while *El Mundo* was once again the second most popular general daily in Spain;
- the fair value, net of accumulated amortization at 31 December 2018, of Euro 53.9 million attributed to Italian trademarks and magazine titles with finite useful life, and the fair value of Euro 12.2 million attributed to Spanish magazine titles with finite useful life.
- investments made for the acquisition of television licenses (Veo Television) and radio licenses (Radio de Aragon) valued with indefinite useful life (Euro 12.6 million);
- the rights to use TV frequencies for digital terrestrial broadcasting systems (Euro 33.2 million) - for a period of twenty years - acquired in 2014 by Cairo Network;
- other intangible assets of Euro 22.3 million, consisting mainly of expenses incurred for the development of websites and new web projects in Italy and Spain, including new RCS Group

digital advertising projects and enhancement of Group infrastructures.

Trademarks and titles with indefinite useful life are not subject to amortization and are regularly tested for impairment, while trademarks and titles with finite useful life are subject to the amortization process based on the duration of their useful life (30 years) and, in the presence of impairment indicators, tested for impairment to measure any potential indication of impairment with respect to their recoverable value.

Goodwill

The item, amounting to Euro 198.5 million, includes:

- goodwill amounting to Euro 191.4 million, deriving from the business combination of the RCS Group, determined as the residual value of the difference between the cost of the transaction and equity acquired, after all the assets and liabilities under the transaction had been expressed at fair value and allocated to the RCS Group as a whole;
- for Euro 7.1 million, goodwill relating to the cash generating units (CGU) represented by Cairo Editore's magazine publishing segment, to the advertising segment and to Il Trovatore.

Pursuant to IAS 36, goodwill is tested for impairment at least annually using the methods outlined in the section on the impairment test process.

Assets under development

"Assets under development" for Euro 1.5 million includes TV rights to be exploited in future years, as well as costs incurred for development of information technology projects which are waiting to go into operation.

Impairment test

Pursuant to IAS 36, intangible assets with indefinite life, goodwill and assets under development are not amortized, but are subject to verification of their recoverable value (impairment test) in the presence of events or circumstances that may entail a risk of impairment and, nonetheless, at least annually. Assets with finite useful life are, instead, subject to amortization according to the duration of their useful life and the presence of indicators of a risk of impairment are periodically assessed.

The following are the assets with indefinite useful life booked in the consolidated financial statements of Cairo Communication following the business combination of the RCS Group, which were tested for impairment at 31 December 2018:

- Italian trademarks/daily newspaper titles referable to the *Corriere della Sera* and *La Gazzetta*

dello Sport systems and their related websites, trademarks and events, booked for a total of Euro 348.8 million;

- the *El Mundo*, *Marca* and *Expansion* Spanish daily newspapers, booked for a total of Euro 295.2 million;
- a number of television and radio licenses, booked for a total of Euro 12.6 million.

Goodwill arising from the business combination of the RCS Group, amounting to Euro 191.4 million, was allocated for impairment purposes to the RCS Group as a whole.

The recoverable value of Italian and Spanish trademarks/daily newspaper titles and of goodwill arising from the business combination of the RCS Group was determined, with support by an independent expert, in terms of the value in use:

- for Italian trademarks/daily newspaper titles and goodwill arising from the business combination of the RCS Group, based on the 2019 budget approved by the Board of Directors of RCS on 6 March 2019. Cash flows as inferred from the 2019 budget, in compliance with the provisions of IAS 36, were projected for valuation purposes to be constant in nominal terms (growth rate g = 0). These flows were, therefore, discounted on the basis of a rate defined as the weighted average cost of capital (WACC) (equal to 7.81% for Italian trademarks/daily newspaper titles and to 7.85% for goodwill). The 2019 budget was also matched against and found to be consistent with the RCS 2019-2021 plan. No evidence of impairment arose from the analysis performed;
- for Spanish trademarks/daily newspaper titles El Mundo, Marca and Expansion, based on the 2019-2023 forecast cash flows which, for the first year of explicit forecast, correspond to the 2019 budget data approved by the Board of Directors of Unidad Editorial on 28 February 2018, and for the following years, are based on Unidad Editorial's Plan approved by the Board of Directors on 12 March 2019. Forecast cash flows for 2018-2022, projected for valuation purposes to be constant in nominal terms (growth rate g = 0), were discounted at a rate considered to represent the weighted average cost of capital (WACC equal to 7.93%). No evidence of impairment arose from the analysis performed.

The values obtained underwent a sensitivity analysis, by varying the discount rate (WACC) and the growth rate of the final value (g), with discrete changes of 50 basis points, and reducing the expected EBITDA values in the year and included in the final value of -15%. None of the scenarios envisaged result in impairment losses.

With regard to the Spanish daily newspaper titles *El Mundo*, *Marca* and *Expansion*, which were attributed, in the context of the business combination of the RCS Group, a fair value equal to the value recorded in the consolidated financial statements of the RCS Group at the acquisition date, RCS prepared an autonomous impairment test with the help of a leading consultancy firm, which indicated no impairment.

The book value of goodwill relating to the cash generating units represented by Cairo Editore’s magazine publishing segment and the advertising segment (totaling Euro 7 million) was also subject to test and showed no impairment.

With regard to assets with finite useful life, subject to amortization according to the duration of their useful life, no indications suggesting the risk of an impairment loss were identified.

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17. Investments

The item, amounting to Euro 41.2 million, includes the investments in associates and joint ventures (Euro 38.9 million) and investments in companies that are neither controlling nor trading (Euro 2.2 million).

The item is broken down as follows:

Description	Carrying amount at 31/12/2017	Acquisitions and share capital increases	Effect of measurement at equity	Effect of fair value measure ment	Disposals	Dividends paid	Carrying amount at 31/12/2018
m-dis Distribuzione Media S.p.A.	2.7	-	1.8	-	-	(1.2)	3.3
Trento Press Service	0.2	-	-	-	-	-	0.2
MDM Milano Distribuzione Media	0.4	-	-	-	-	-	0.4
Pieroni Distribuzione	0.9	-	0.1	-	-	(0.2)	0.8
Liguria Press (former Ge-dis)	0.2	-	-	-	-	-	0.2
To-dis	1.5	-	(0.1)	-	-	(0.2)	1.2
Escuela de cocina Telva	0.1	-	-	-	-	-	0.1
Radio Salud	0.3	-	-	-	-	-	0.3
Bermont Group	36.5	-	0.2	-	-	(4.3)	32.4
Planet Sfera SL	0.1	-	-	-	-	-	0.1
Total investments in associates and joint ventures	**42.9**	**-**	**2.0**	**-**	**-**	**(5.9)**	**39.0**
Wouzee Media S.L	0.2	-	-	-	-	-	0.2
Ansa	0.2	-		0.4	-	-	0.6
H-Farm Ventures	0.2	-		0.2	-	-	0.4
Digital Magics	0.1	-		0.1	-	-	0.2
Immobiliare Editrice Giornali	0.1	-		0.3	-	-	0.4
Sport Pesa Italy	-	0.7		(0.7)	-	-	0.0
13 TV	2.0	-		(2.0)	-	-	-
Cefriel	-	-		0.2	-	-	0.2
Other minor	0.3	-	-		(0.1)	-	0.2
Total other investments	**3.0**	**0.7**	**-**	**(1.5)**	**(0.1)**	-	**2.2**
Total investments	**45.9**	**0.7**	**2.0**	**(1.5)**	**(0.1)**	**(5.9)**	**41.2**

The item mainly includes the RCS Group investments in Corporacion Bermont (Euro 32.4 million), a Spanish company that deals with the printing of newspapers, magazines and other publishing products, as well as the distribution, marketing, sale and promotion of any type of periodical publication and the investment in Distribuzione Media S.p.A. (Euro 3.3 million), which carries out distribution activities in Italy in the newsstand channel and at other authorized points of sale for publishing and non-publishing products (telephone cards and on-line top-ups).

Investments in associates and joint ventures measured at equity amounted to Euro 38.9 million, decreasing in the year by a net Euro 3.9 million. The decrease is attributable mainly to the distribution of dividends by the investees Corporacion Bermont and m-dis Distribuzione Media S.p.A., only partly offset by the positive results in the year.

The share of equity-accounted investees amounted to Euro 2 million (Euro 2.1 million in 2017) and includes mainly the pro-rata profit of m-dis Distribuzione Media S.p.A. and its subsidiaries of Euro 1.8 million and the pro-rata profit of the Spanish group Corporation Bermont of Euro 0.2 million comprising

non-recurring expense of Euro 0.6 million.

Securities and equity investments that are not controlled, linked or traded are defined as "Other equity instruments" at 31 December 2018 and amounted to Euro 2.2 million, down by Euro 0.8 million versus 31 December 2017. These assets are measured at fair value with a level 1 hierarchy (Euro 0.6 million) and a level 3 hierarchy (Euro 1.6 million) in accordance with IFRS 7. As the Group does not trade equities, it has adopted the option of presenting subsequent changes in the fair value of the investment among other comprehensive income (Euro -1.5 million in 2018).

Equity investments for which no fair value is available are recognized at cost, net of impairment losses, if any.

18. Current and non-current financial receivables

Financial receivables and assets totaled Euro 3.6 million (Euro 4.7 million at 31 December 2017), of which Euro 2.2 million non-current (Euro 3.8 million at 31 December 2017), and were attributable mainly to loans granted by the RCS Group.

The decrease versus 31 December 2017 is due to the increase in the allowance for doubtful financial receivables (Euro 2.4 million), net of the increase in financial receivables of the Spanish group Unidad Editorial resulting from new agreements for the distribution of publishing products.

The fair value of non-current loans to third parties was estimated by discounting future cash flows at the market rate.

A comparison of carrying amount and fair value is shown below:

Description	31/12/2018		31/12/2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current loans to third parties	5.4	2.2	4.5	3.7
Allowance for doubtful financial receivables	(3.2)	-	(0.8)	-
Non-current loans to associates	0.2	-	-	-
Allowance for doubtful financial receivables from associates	(0.2)	-	-	-
Total	**2.2**	**2.2**	**3.8**	**3.7**

Current financial receivables relate mainly to loans granted by the RCS Group (Euro 1.4 million), and

include Euro 0.3 million in derivative financial instruments recognized at fair value at a level 2 hierarchy pursuant to IFRS 7.

For further details on derivative financial instruments, reference should be made to Note 31 below.

19. Other non-current assets

Other non-current assets, amounting to Euro 15 million at 31 December 2018, decreased by Euro 0.3 million versus the prior year, and include mainly non-current receivables due from the tax authorities (Euro 12.7 million) and security and bank deposits (Euro 2.1 million).

20. Deferred tax assets

“Deferred tax assets” relates to the recognition in the consolidated financial statements at 31 December 2018 of deferred tax assets on the temporary differences between the carrying amount of recognized assets and liabilities and their tax values and on the tax benefits deriving from usable tax losses. The item, amounting to Euro 103 million, decreased by Euro 10.3 million versus 31 December 2017, and is broken down as follows:

Description	31/12/2018	31/12/2017	Change
Tax losses carried forward	38.4	45.2	(6.8)
Asset valuation reserves	4.5	4.3	0.2
Provisions for risks and charges	7.9	7.4	0.5
Deferred deductibility costs	0.9	0.7	0.2
Deferred taxation from tax transparency system	1.4	1.4	-
Intangible and tangible fixed assets	5.0	5.4	(0.4)
Measurement of derivative financial instruments	0.2	0.2	-
Deferred deductibility interest expense	27.1	27.9	(0.8)
Other temporary differences	17.6	20.8	(3.2)
Total deferred tax assets	**103.0**	**113.3**	**(10.3)**

Prepaid tax assets are calculated on the basis of the estimate of future taxable income in periods in which the associated temporary differences and the benefits deriving from the use of previous tax losses will be reversed.

21. Inventory

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

Description	31/12/2018	31/12/2017	Change
Raw materials, consumables and supplies	18.9	14.6	4.3
Work-in-progress and bordereau	1.9	1.8	0.1
Finished products and books	2.1	1.9	0.2
Total	**22.9**	**18.2**	**4.7**

Inventory is stated net of the provision for inventory write-down of Euro 1.3 million (Euro 1.2 million at 31 December 2017).

- Raw materials, consumables and supplies

  The item mainly includes paper inventory and is recognized at the lower of purchase or production cost and its presumed realizable value, based on market performance at year end. Mention should be made that the purchase cost for raw materials is determined using the weighted average cost method.

- Work-in-progress and bordereau

  The item includes purchase or production costs incurred for publications to be invoiced, bordereau for services yet to be used, but available for future publications, and work in progress on forthcoming editions.

- Finished products

  The item includes inventory of books and promotional products of the RCS Group, inventories of books of Cairo Publishing, valued at the lower of cost and the presumed realizable value, the inventories of La7 relating to TV programmes produced and awaiting to be aired at 31 December 2018, and to rights on films, soaps, cartoons and documentaries, acquired for a period of less than 12 months, whose available right has not expired and for which airing time during the next financial year is available.

22. Trade receivables

Trade receivables can be analyzed as follows:

Description	31/12/2018	31/12/2017	Change
Trade receivables	306.7	331.2	(24.5)
Allowance for impairment	(38.4)	(38.0)	(0.4)
Total trade receivables	**268.3**	**293.2**	**(24.9)**

Trade receivables, amounting to Euro 268.3 million, are shown net of expected returns from newspapers and magazines and decrease by Euro 24.9 million versus the prior year, due mainly to improved collection time and recovery of past dues.

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.

The adoption of IFRS 9 resulted in the application of the expected credit loss model, replacing the incurred credit loss model provided for by IAS 39. The Group made use of the exemption that allows an entity not to recalculate prior-years' comparative information regarding changes in classification and measurement, including impairment losses. The adoption of this new standard resulted in an increase in the allowance for doubtful trade receivables of Euro 1.2 million at 1 January 2018.

The allowance for impairment, amounting to Euro 38.4 million, increased by Euro 0.4 million versus 31 December 2017, as a result of allocations in the period (Euro 3.5 million), due to the effects from the first-time application of IFRS 9 (Euro 1.2 million) net of utilizations in the period (Euro 4.3 million).

For further details on credit risk, reference should be made to Note 38.

23. Receivables from parents, associates and affiliates

The item, amounting to Euro 21.6 million (Euro 18.7 million at 31 December 2017), includes mainly:

- for Euro 19.8 million, receivables from the associate m-dis Distribuzione Media S.p.A., which carries out distribution activities in Italy in the newsstand channel and at other authorized points of sale for publishing products on behalf of the RCS Group;
- for Euro 0.9 million, receivables due from the affiliate Torino Football Club S.p.A., accrued mainly as part of the contractual relations described in Note 37 below;
- for Euro 0.9 million, the receivable due to some Group companies from the parent U.T. Communications accrued as part of the tax consolidation of the latter, applicable until the end of

2016.

24. Other receivables and other current assets

The item, amounting to Euro 32.3 million (Euro 38.9 million at 31 December 2017), is broken down as follows:

Description	31/12/2018	31/12/2017	Change
Current tax receivables	4.1	4.2	(0.1)
Tax receivables	0.5	4.4	(3.9)
Total tax receivables	**4.6**	**8.6**	**(4.0)**
Prepayments and accrued income	10.9	10.8	0.1
Advances to suppliers and agents	12.6	12.4	0.2
Other receivables	4.2	7.1	(2.9)
Total sundry receivables and other current assets	**32.3**	**38.9**	**(6.6)**

25. Cash and cash equivalents

The item can be analyzed as follows:

Description	31/12/2018	31/12/2017	Change
Bank accounts	55.9	127.2	(71.3)
Cash	0.3	0.9	(0.6)
Total cash and cash equivalents	**56.2**	**128.1**	**(71.9)**

The consolidated net financial position at 31 December 2018, versus the situation at 31 December 2017, can be summarized as follows:

Net financial debt (€ millions)	**31/12/2018**	**31/12/2017**	**Changes**
Cash and cash equivalents	56.2	128.1	(71.9)
Other current financial assets and financial receivables	1.7	0.9	0.8
Current financial assets (liabilities) from derivative instruments	(0.1)	(1.0)	0.9
Current financial payables	(63.8)	(72.0)	8.2
Current net financial position (net financial debt)	**(6.0)**	**56.0**	**(62.0)**
Non-current financial payables	(181.6)	(319.0)	137.3
Non-current financial assets (liabilities) from derivative instruments	(1.0)	(0.1)	(0.9)
Non-current net financial position (net financial debt)	**(182.6)**	**(319.1)**	**136.5**
Net financial position (Net financial debt) from continuing operations	**(188.6)**	**(263.1)**	**74.5**

Net financial debt at 31 December 2018 improved by Euro 74.5 million versus the prior year, as a result mainly of cash flows from operations before changes in net working capital (Euro 170.4 million). This effect was partly offset by the cash flows used in investing activities in tangible and intangible assets (Euro 31.9 million), the distribution of dividends (Euro 13.4 million), the negative trend in working capital (Euro 35.4 million) and financial expense and tax (Euro 19.2 million). The Group's financial liabilities are commented on in Note 27 below.

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. The Group also continues to monitor the trend in the credit and capital markets and their possible evolution.

26. Equity

At 31 December 2018, the consolidated equity of the Group was Euro 436.8 million, including profit for the year. Changes in the equity accounts are stated in the Statement of changes in consolidated equity.

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

the Directors' Report.

Mention should additionally be made that at their Meeting on 27 April 2018, the shareholders approved the distribution of a dividend of 0.10 Euro per share, inclusive of tax, with coupon detachment date on 14 May 2018, for a total of Euro 13.4 million.

The subscribed and fully paid up share capital at 31 December 2018 was Euro 7 million, comprising no. 134,416,598 ordinary shares, with no indication of par value.

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 envisaged involving share capital increases, even on a freely allocated basis.

The reconciliation between the number of shares outstanding at 31 December 2018 and those at 31 December 2017 is as follows:

Description	31/12/2017	Share capital increase	Purchase/Disposal of treasury	31/12/2018
Ordinary shares issued	134,416,598	-	-	134,416,598
Treasury shares	(779)	-	-	(779)
Outstanding ordinary shares	**134,415,819**	**-**	**-**	**134,415,819**

In 2018, as part of the share buy-back plans, no treasury shares were sold or purchased.

At 31 December 2018, Cairo Communication held a total of no. 779 treasury shares, subject to art. 2357-ter of the Italian Civil Code.

“Retained earnings and other reserves”, amounting to Euro 133 million at 31 December 2018, includes:

- Euro 133.2 million in retained earnings;
- Euro 1.2 million in the legal reserve;

- Euro -0.5 million in the cash flow hedge reserve, which includes the effects recognized directly in equity as a result of the derivative financial instruments taken out to hedge the risk of rate fluctuations and the relating tax effect (Euro -0.3 million at 31 December 2017);

- Euro -0.9 million, the reserve for financial assets measured at fair value through other comprehensive income, set up in 2018 following the measurement of "Other non-current equity instruments" as required by the new IFRS 9.

27. Non-current payables and financial liabilities

“Non-current financial payables and liabilities”, amounting to Euro 182.6 million (Euro 319.1 million at 31 December 2017) include the non-current portion of bank loans of Euro 181.6 million (Euro 314.5 million at 31 December 2017) and, for Euro 1 million, the fair value of derivative financial instruments hedging the interest rate risk exposure commented on in Note 31 below. At 31 December 2017, the item also included financial payables related to leases for Euro 4.3 million.

The main bank loans are explained below:

Intesa San Paolo loan

In July 2016, Cairo Communication concluded a revolving facility agreement with Intesa Sanpaolo for a total amount of Euro 140 million, of which Euro approximately 40 million drawn down at 31 December 2018, aimed at funding both the payment of the cash component of the offer for the acquisition of the control of RCS and for other general corporate purposes.

The loan has a duration of 60 months from the date of first use, with a margin of 48 basis points over the Euribor (for a duration corresponding to the relevant interest period), and does not require any collateral or financial covenants, or limits to the distribution of dividends by Cairo Communication.
The loan agreement provides for the customary representations, warranties and commitments typical of such transactions. No commitments are required from Cairo Communication in relation to RCS Group companies (including limits to the disposal of assets or the assumption of financial debt). Additionally, the loan agreement contains a cross-default clause (i.e., call in of the loan in the event of default under other loan agreements) regarding exclusively loan agreements relating to Cairo Communication and certain relevant subsidiaries (Cairo Editore, Cairo Pubblicità and La7), excluding, therefore, the loan agreements related to RCS.

Early repayment is envisaged in the event of a change in control of Cairo Communication, and should

the latter cease to directly or indirectly hold an interest of at least 35% in the share capital of RCS.

RCS financial debt

On 4 August 2017, in execution of the term sheet signed on 4 July 2017 with Intesa Sanpaolo S.p.A., RCS concluded a loan agreement with a pool of banks: Banca IMI S.p.A. as Organizing Bank, Agent and Coordinator, Intesa Sanpaolo S.p.A. as Lender and Banca Popolare di Milano S.p.A., Mediobanca – Banca di Credito Finanziario S.p.A., UBI Banca S.p.A. and UniCredit S.p.A. as Organizing Banks and Lenders.

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

The main terms and conditions of the loan at 31 December 2018 are, *inter alia*, the following:

a) the breakdown of the loan into an amortizing term credit Line of Euro 125 million and a Revolving Credit Line of Euro 125 million;
b) an annual interest rate equal to the sum of the benchmark Euribor and a variable spread, depending on the Leverage Ratio;
c) a single covenant based on a Leverage Ratio (i.e., Net debt/EBITDA). The covenant must not exceed (i) 3.25x at 31 December 2018 and (ii) 3x at 31 December of each following year;
d) a repayment schedule for the amortizing term facility, which sets out the repayment in six-month instalments of Euro 12.5 million.

The loan agreement envisages compulsory early repayment, statements, obligations, withdrawal and materiality threshold clauses that are, altogether, more favourable for RCS than the previous loan agreement. These clauses apply, for instance, to treasury agreements and intra-group loans and guarantees, acquisitions, joint ventures, investments and reorganization, financial debt assumption, transfers and share capital reduction.

At 31 December 2018, the above covenants had been met.

Cairo Network financial debt

The bank loan (Euro 5 million at 31 December 2018) granted by Unicredit S.p.A. and used by the

subsidiary Cairo Network to pay part of the rights of use of the TV frequencies, is secured by a guarantee issued by the parent Cairo Communication.

The loan expires on 31 December 2019 and repayment is made in 20 quarterly instalments of Euro 1,250 thousand, starting from 31 March 2015 and all regularly met to date; early repayment is allowed. The loan calls for the payment of an interest rate equal to the 3-month Euribor plus 0.75 basis points (renegotiated as from 2017) and certain constraints (negative pledges) and commitments (covenants) typical of these transactions. No financial covenants are required.

The loan agreement contains a number of commitment covenants on Cairo Network, which 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. Early repayment is provided for in the event of a change of control of Cairo Network.

28. Post-employment benefits

Post-employment benefits represent a type of employee remuneration, whose payment is deferred until termination of employment. Liabilities relating to post-employment benefits are discounted according to IAS 19, using discount rates ranging from 1.1% to 1.6%.

The composition and movements of this item in the year are shown in the table below:

Description	31/12/2018	31/12/2017	Change
Opening balance	**51.6**	**53.3**	**(1.7)**
Provisions	1.6	1.5	0.1
Interest expense	0.7	0.7	-
Profit (loss) from actuarial valuations	(1.6)	(0.7)	(0.9)
Utilization/other changes	(2.3)	(3.2)	0.9
Closing balance	**50.0**	**51.6**	**(1.6)**

The exact administrative headcount of the Group at 31 December 2018 is shown below, broken down by

role and geographical area:

Description	31/12/2018	31/12/2017	Change
Senior managers	112	108	4
Managers	330	338	(8)
Employees	1,841	1,879	(38)
Journalists	1,527	1,531	(4)
Blue-collar workers	234	236	(2)
Grand total	**4,044**	**4,092**	**(48)**

Description	31/12/2018	31/12/2017	Change
Italy	2,731	2,738	(7)
Abroad	1,313	1,354	(41)
Grand total	**4,044**	**4,092**	**(48)**

3,265 employees refer to the RCS Group.

29. Provisions for risks and charges and provision for deferred tax

Movements in the period are shown below:

Description	31/12/2017	Provisions	Utilizations/ Recoveries	Other changes	31/12/2018
Provision for agents' termination benefits	3.4	0.4	(0.2)	(0.2)	3.4
Provision for legal disputes	15.6	4.2	(2.5)	(2.6)	14.7
Provisions for personnel	19.8	2.6	(1.5)	(2.6)	18.3
Provisions for future risks and charges under the purchase price allocation of La7 S.r.l.	10.8	-	(3.5)	-	7.3
Other provisions for other risks and charges	19.7	3.2	(3.1)	(1.2)	18.6
Grand total	**69.3**	**10.4**	**(10.8)**	**(6.6)**	**62.3**

The provision for "Agents' termination benefits" is the amount, subject to actuarial valuations, to be

paid to agents as prescribed by law and the applicable collective contracts.

The “Provision for legal disputes”, amounting to Euro 14.7 million, relates to potential liabilities deriving from ongoing disputes with third parties, and refers to both civil proceedings and defamation suits related to articles published in the Group’s titles.

“Provisions for personnel”, amounting to Euro 18.3 million, includes potential liabilities linked to personnel management and the termination of employment relationships and leased staff contracts, and relate to the RCS Group (Euro 13.4 million) and to the subsidiary La7 (Euro 4.9 million).

Mention should be made that, in 2013, as part of the purchase price allocation of La7 S.r.l., a negative fair value had been attributed, by allocating the appropriate “provisions for future risks and charges recognized as part of the purchase price allocation of La7 S.r.l.”, with reference 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.

The item has a residual balance of Euro 7.3 million at 31 December 2018.

“Other provisions for risks and charges” mainly relate to contingent liabilities attributable to the RCS Group and to La7, set aside to cover the risk arising from claims for damages originated during the production and airing of TV programmes and from other contractual risks.

Deferred tax liabilities, amounting to Euro 165.3 million (Euro 169.7 million at 31 December 2017), refer almost entirely to the business combination of the RCS Group.

30. Other non-current liabilities

The item, amounting to Euro 0.9 million (Euro 0.9 million at 31 December 2017), is attributable entirely to the RCS Group and includes the long-term portion of social security and tax payables.

31. Current financial payables and liabilities

The item, amounting to Euro 63.9 million (Euro 73 million at 31 December 2017), includes mainly:

- for Euro 52.7 million (Euro 62 million at 31 December 2017), the current portion of the bank loans explained in Note 27 above and bank overdrafts;

- for Euro 6.8 million (Euro 4.3 million at 31 December 2017), financial payables due to associates belonging to the m-dis Distribuzione Media Group described in Note 37 below;

- for Euro 4.3 million (Euro 5.1 million 31 December 2017), current financial payables from lease contracts;

- for Euro 0.1 million, the current portion of derivative financial instruments measured at level 2 in the fair value hierarchy pursuant to IFRS 7.

Financial payables related to leases, amounting to Euro 4.3 million, relate mainly to plant and rotary presses of the RCS group. The leases have been made with major financial institutions and generally last for 10 years, with a grace period of around 2 years. The underlying repayment schedules have been calculated mainly on the basis of constant repayments, in which a growing proportion relates to principal and which are adjusted for any interest-rate changes.

Finance lease payables	31/12/2018			31/12/2017		
	Minimum lease payment	Interest	Present value of minimum lease	Pagamento minimi per leasing	Interessi	Valore attuale dei pagamenti minimi per leasing
- due within one year	4.3	-	4.3	5.1	-	5.1
- due within five years	-	-	-	4.4	0.1	4.3
- due beyond five years	-	-	-	-	-	-
Closing balance	**4.3**	-	**4.3**	**9.5**		**9.5**

The present value of the minimum lease payments is less than at the end of the prior year as a result of payments in the year. The fair value of finance lease payables contracted by the Group is Euro 4.3 million.

The main types of derivative financial instruments are reported below, along with the hedging or trading purposes for which the relevant derivative contracts were stipulated, and the maturity dates of the notional amounts of IRS interest rate derivatives.

Description	31/12/2018		31/12/2017	
	Assets	Liabilities	Assets	Liabilities
Interest Rate Cap for cash flow hedges	-	-	-	-
Interest Rate Swap for cash flow hedges	-	(1.1)	-	(1.1)
Forward Foreign Exchange Contract for exchange rate hedging	0.3	-	-	-
Total	**0.3**	**(1.1)**	**-**	**(1.1)**

At 31 December 2018, current financial assets included Euro 0.3 million for the fair value of financial instruments hedging exchange rate risks (forward currency purchases coinciding with the due date of contractual payments) used by La7 S.p.A. to purchase TV rights from film companies. This instrument was negotiated for hedging purposes only.

The current portion of financial liabilities arising from the measurement of derivative instruments amounted to Euro 0.1 million (Euro 1 million at 31 December 2017), while the non-current portion amounted to Euro 1 million (Euro 0.1 million at 31 December 2017). The net loss from the measurement of these derivative instruments at fair value, recorded in the comprehensive income statement, amounted to Euro 0.4 million in 2018, gross of tax (net profit of Euro 3.4 million in 2017).

The notional amount of the Interest Rate Swaps at 31 December 2018, relating entirely to the RCS Group, came to Euro 170 million, with a contractual fixed rate of 0.182% for Interest Rate Swaps (0.098% in the prior year). The reference parameter for the floating rate is three-month Euribor.

Description	Current notional amount	Benchmark	Rate	0-6 M	6 M - 1 Y	1-2 Y	2-5 Y	> 5 Y
IRS	170.0	Euribor 3 M	0.182%	(40.0)	(40.0)	(50.0)	(40.0)	-

The above instruments refer to the hedging of exposure to interest rate risk on short and medium/long-term debt, represented mainly by the Term and Revolving Lines of the loan renegotiated in 2018, and were negotiated specifically for hedging purposes. In compliance with International Financial Reporting Standards they have been submitted to the so-called effectiveness testing (prospective and retrospective), to see whether they qualify for hedge accounting, in accordance with the specific requirements for hedges.

32. Payables to suppliers

“Payable to suppliers" amounted to Euro 262.4 million, down by Euro 45.3 million versus the prior year, due to the effective operating cost-cutting measures. Payables relate entirely to the current year.

33. Payables to parents, associates and affiliates

“Payables to parents, associates and affiliates” amounted to Euro 19.3 million (Euro 17.2 million at 31 December 2017) and includes:

- trade payables amounting to Euro 11.2 million due to some associates of the Bermont Group that handle the printing of newspapers, magazines and other publishing products in Spain;

- trade payables amounting to Euro 1.9 million due to the associate m-dis Distribuzione Media S.p.A., which oversees the distribution of publishing and non-publishing products in the newsstand channel in Italy;
- trade payables amounting to Euro 6.2 million 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..

34. Tax payables

They include:

Description	31/12/2018	31/12/2017	Change
Current tax payables	2.2	1.7	0.5
Other tax payables	16.1	15.1	1.0
Closing balance	**18.3**	**16.8**	**1.5**

The item, amounting to Euro 18.3 million, increased by Euro 1.5 million versus 31 December 2017, and includes tax liabilities attributable to the RCS Group (Euro 14.8 million).

35. Other payables and other current liabilities

The item can be analyzed as follows:

Description	31/12/2018	31/12/2017	Change
Payables to employees	41.4	43.5	(2.1)
Payables to pension and social security institutions	17.4	17.4	(0.0)
Advances and payments on account on subscriptions	9.5	11.6	(2.1)
Accrued expense and deferred income	20.4	29.7	(9.3)
Other payables	10.6	12.2	(1.6)
Closing balance	**99.3**	**114.5**	**(15.2)**

The item, amounting to Euro 99.3 million, decreased by Euro 15.2 million versus the prior year, and includes current liabilities attributable to the RCS Group of Euro 76.8 million.

36. Commitments, risks and other information

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, as reviewed in March 2018, which contain better terms overall for Cairo Network, include, *inter alia*:

- a transitional phase, completed on 31 December 2017, of the realization of the mux 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 of at least 94% of the population, in line with national muxes with greater coverage;
- consideration to EIT:
  - during the realization of the mux 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 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 6 million in the 2018-2022 period, reduced to Euro 5.5 million in the 2023-2027 period and to Euro 5 million from 2028 until expiry, in the event that the available bandwidth on the mux is not fully used by Cairo Network.

Article 1, paragraph 1026 and ensuing paragraphs, of the 2018 Italian Budget Law (Law no. 205 of 2017) introduced specific provisions for terrestrial TV operators to release 694-790 MHz frequencies ("700 band" – corresponding to channels 49-60) to telephone operators and for the consequent reorganization of the user rights of existing television operators over the remaining television spectrum ("refarming").

The 700 band frequencies must be completely released by television operators by 30 June 2022, as they are assigned to telecom operators as a result of the tender procedure concluded in October 2018.

The provisions of the 2018 Budget Law were subsequently amended, in some respects, in the 2019 Budget Law (Law no. 145 of 2018) and the refarming procedures initiated in 2018 were restarted with

updated timing.

The UHF band frequencies that will remain internationally allocated to post-refarming terrestrial television broadcasting are channels 21 to 48. Based on the bilateral agreements with radio-electrically bordering countries, AGCOM has planned 12 muxes of national frequencies (11 in the UHF band - one of which "decomposable" intended for the public licensee - and 1 mainly in the VHF band), much lower the current amount (the current muxes of national frequencies are 20, almost double).

The 2018 Budget Law requires national frequency muxes to adopt the DVB-T2 digital terrestrial standard, introducing a transitional conversion of the rights to use national frequency muxes into rights to use transmission capacity, with a view to subsequent reallocation. The 2019 Budget Law also introduced a procedure for consideration on the assignment of rights of use (presumably in an amount equivalent to two muxes) that do not arise from the above conversion of current rights of use; the procedure must be called by 30 November 2019.

In implementation of the 2018 Budget Law, AGCOM published the resolutions:

i) no. 137/18/CONS and no. 290/2018/CONS (respectively initiating the procedure and adopting the National Frequency Allocation Plan for digital terrestrial television, PNAF 2018);

ii) no. 182/18/CONS, initiating the procedure to define the criteria for the conversion of rights to use frequencies at national level for digital terrestrial service into rights to use broadcasting capacity and for the assignment at national level of the rights to use planned frequencies, assuming a possible 2:1 criterion;

iii) no. 474/18/CONS, launching the public consultation on the definition of the criteria set out in the procedure initiated by Decision No 182/18/CONS.

On 5 April 2018, the MISE published the draft decree on the Roadmap for the liberalization of the 700 MHz frequency band and, on 8 August 2018, its final version. Additionally, a "TV forum" (at MISE) was also set up in September 2018 to involve both operators and authorities.

In implementation of the 2019 Budget Law, in February 2019, AGCOM published resolution no. 39/19/CONS, adopting the new National Frequency Allocation Plan for digital terrestrial television (PNAF 2019), which replaces the 2018 PNAF.

Cairo Network was heard in the context of the various proceedings, and took part in the relating public consultations and in the above-mentioned "TV Forum", pointing out the legal and technical arguments for the exclusion of the Company from the application of the Budget Law, also attaching the supporting documents.

Specifically, the Authorities were explained, *inter alia*, that the granting of television frequencies to Cairo Network has a backstory and features that are quite different from the rest of the Italian television

system. In fact, and unlike other operators: 1) Cairo, as the new entrant, purchased its 20-year right to use the frequencies for consideration from MISE, following a specific tender procedure put in place by the Ministry of Economic Development to sidestep an EU infringement by Italy; 2) Cairo began implementing the high-quality television network and territorial broadcasting only from July 2014 (date of the tender procedure award). Additionally, the documents related to the tender procedure for consideration on the allocation of frequencies explicitly provided, on issue of the frequency in favour of the telco operators, that the successful bidder (for Lot 3) would receive a frequency similar to the frequency assigned (with regard to the channel involved in refarming).

Cairo Network also challenged resolutions nos. 137, 182 and 290 of AGCOM and the draft and final version of the MISE decree, filing appeals with the Latium Regional Administrative Court, Rome, and subsequent additional grounds (g.r. no. 6740/2018 and g.r. no. 7078/18), in which the same arguments raised with the public authorities and further illegalities of the contested measures were also raised with the administrative judge. These cases are currently pending. In the coming weeks, Cairo Network will also challenge Resolution no. 39/19/CONS.

The schedule to date is as follows:

- by 30 March 2019, AGCOM is called to establish the criteria on the conversion of rights to use frequencies at national level and for the allocation of rights to use planned frequencies at national level;
- by 15 April 2019, update of the Roadmap for the release of frequencies, published by MISE through decree dated 8 August 2018;
- by 30 June 2019, MISE will issue the rights to use frequencies for national network operators based on AGCOM criteria;
- by 30 September 2019, AGCOM is called to establish the procedure for consideration by which rights of use not arising from the conversion of existing rights of use will be assigned.

In light of the constantly evolving regulatory framework and the various acts and provisions still in the process of being adopted by public authorities, the effects of the future reorganization of the television band cannot be predicted with certainty at this time, nor the outcome of the discussions initiated with the Authorities or of the TAR judgements.

In view of the new frequency structure, the law also requires the automatic digital terrestrial TV channel numbering plan to be updated, which should be drawn up by AGCOM no later than 31 May 2019, together with the procedures for allocating the numbers.

In its hearing on 18 October 2010, the Provincial Tax Commission of Milan upheld 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.

The RCS 2018 Annual Report contains an update to the information on RCS Sport events previously illustrated in the RCS 2015, 2016 and 2017 annual reports under "Information on ongoing disputes":

(i) With regard to civil action brought against certain defendants in the current criminal proceedings, at the hearings held on 9 and 16 June 2017, the President of the formation of the Court informed that he had been assigned to another task and, as the defendants' attorneys had failed to reach an agreement on continuing the pre-trial work carried out so far, the trial inquiry had to be resumed from the beginning due to the changed formation of the Court.

The newly-formed Court, after admitting the evidence from witnesses and the documentary proof requested by the parties, has postponed the schedule of hearings and deferred the examination of witnesses. The dates of the hearings have been set and various witnesses have been heard.

(ii) With regard to the writ of summons served on 1 August 2014 by which RCS Sport S.p.A. had lodged liability actions pursuant to articles 2393 and 2396 of the Italian Civil Code against the former Chief Executive Officer and former General Manager, at the end of February 2018, a settlement agreement was reached on the ruling relating to these actions, with payment of the amount of Euro 2.6 million by the insurance company in favour of RCS Sport. The agreement provides, inter alia, for the waiver, in respect solely of the former CEO and the former General Manager, of the civil action proposed in the criminal proceedings.

(iii) With regard to the appeal against the redundancies ordered, on 28 May 2018, the Court of Appeal of Milan ruled on the appeal filed by the former Chief Executive Officer, partly reversing the first instance ruling and ordering RCS to pay the sum of approximately Euro 282 thousand as fixed indemnity and over approximately Euro 21 thousand applied to post-employment benefits. RCS appealed to the Court of Cassation against the ruling. On 27 March 2018, the Court of Appeal of Milan dismissed the appeal filed by the former General Manager and sentenced to reimburse the costs of the instance paid in the amount of Euro 7 thousand plus general expenses and legal fees. The former employee appealed to the Court of Cassation against the rulings.

(iv) Pending before the Court of Milan against the Bank where the current account is held (a) the

action for liability brought by Consorzio Milano Marathon (b) the actions for liability brought by the Amateur Sports Association Milano City Marathon and other associations. The cases were unified and are currently at the preliminary phase.

With regard to the property located in Via Solferino, RCS is a party to a dispute concerning the transaction, negotiated and closed in 2013, on the sale by RCS to the speculative real-estate fund "Delphine" of the properties located in Via Solferino 28, Via San Marco 21, and Via Balzan 3 in Milan (collectively, the "Property"), and their simultaneous lease to RCS (the "Transaction"). The dispute involves two separate proceedings, namely: an arbitration pending in Italy and a lawsuit pending in New York.

Arbitration in Italy: on 9 November 2018 RCS - after a thorough review carried out with the help of consultants - filed a request for arbitration with the Milan Chamber of Arbitration, by which it requested, *inter alia*, a declaration of nullity of the contracts through which the Transaction was completed, an order to Delphine to return the Property and the rents in the meantime paid by RCS, as well as to pay damages. On 9 January 2019, the Delphine fund, through its asset management company Kryalos SGR S.p.A., appeared in the arbitration with a Statement of Defense challenging the jurisdiction and/or competence of the Arbitration Panel and the grounds of RCS's claims, and filed a liability claim pursuant to art. 96 of the Italian Code of Civil Procedure. The constitution of the Arbitration Panel is currently underway.

Lawsuit in New York: On 20 November 2018, RCS received a complaint before the NY Supreme Court from the Delphine fund, from its parent Sforza Holdco S.à.r.l., from Blackstone Real Estate Advisory L.P., and from eleven entities indicated as indirect shareholders of Sforza HoldCo S.à r.l.. The plaintiffs argue that RCS has acted unlawfully and in breach of its obligations (specifically, for challenging the ownership of the Property and interfering in the sale negotiations allegedly underway with a third party), and request to declare the validity of the contracts by means of which the Transaction was completed, and an order to RCS to pay damages, which are not quantified but generally indicated as exceeding USD 500,000. RCS appeared in the proceedings requesting to "dismiss" the case even before opening the trial, on the grounds of a lack of jurisdiction of the NY Supreme Court; alternatively, RCS has requested a stay of the case in New York, pending the outcome of the Arbitration in Italy, as the latter is the only body competent to decide on the validity or invalidity of the Transaction. RCS has also requested to dismiss the case on the grounds that the plaintiffs' claims are unfounded in law. The discussion phase (written and oral) on the motion to dismiss the case filed by the company is currently underway.

Based on the advice of its legal consultants, the company considered that the recognition criteria for a

provision are not met.

With regard to the contract for the purchase of RCS's interest in RCS Libri S.p.A. signed on 4 October 2015, and to the earn-out established therein, it should be noted that the required procedures for verifying the existence (or less) of the conditions for payment of the earn-out and, in such case, for its determination, have been put in place and are still in progress, as set out in the sale contract.

The main guarantees given by the Group are listed below:

- the guarantees and endorsements came to a total of Euro 45.9 million and include the guarantees issued by the RCS Group to Rizzoli Libri S.p.A. (formerly RCS Libri S.p.A., company transferred in 2016) and to its subsidiaries Marsilio S.p.A. and Librerie Rizzoli S.r.l. in favour of the Italian Tax Authorities for VAT credits relating to 2015 for which RCS MediaGroup S.p.A. is jointly obligated. The item also includes the guarantees given to the Public Administration and other public bodies for prize contests, concessions and disputes, as well as in favor of third parties for leases;
- other guarantees amounted to Euro 3 million, down by Euro 13 million versus 31 December 2017. The decrease relates to the termination of the guarantee for VAT credits for 2014. The item includes the indemnity issued to Agenzia per lo Sviluppo dell'Editoria and to SIAE for reimbursements received and subscribed with related parties for Euro 0.6 million;
- commitments amounted to Euro 4.4 million, increasing by Euro 1.7 million versus the prior year. The item includes existing and potential contractual commitments relating to personnel, which refer solely to agreements in force at 31 December 2018, subject to contractual clauses at that date under the exclusive control of the Group. These commitments are entered into with related parties for the entire amount.

It should also be noted that, as part of the transfers or contributions of investments or business units carried out by the RCS Group, the RCS Group granted guarantees, predominantly of a tax, social security and labor nature, which are still active. These guarantees were issued according to market practices and conditions.

The main operating leases held by the Group refer to property leases, company cars, plant and equipment, electronic devices and publications.

The amount of outstanding lease payments still due by the Group at the reporting date for irrevocable

operating leases is as follows:

Minimum lease payments	31/12/2018	31/12/2017	Change
- due within one year	32.3	32.4	(0.1)
- due within five years	112.9	117.1	(4.2)
- due beyond five years	136.4	139.6	(3.2)
Closing balance	**281.6**	**289.1**	**(7.5)**

At 31 December 2018, commitments held by the RCS Group amounted to Euro 252 million.

Lastly, it should be noted that the Group benefited from special rates for the amount of Euro 111,698, pursuant to art. 28 of Law no. 416 of 5 August 1981 "Regulations governing publishers and publishing benefits" relating to certain dedicated telephone lines and Euro 4,480 as contributions for the continuous training of workers.

Pursuant to art. 1 par. 125 to 129 of Law no. 124 of 4 August 2017, with regard to the obligations to publish grants, contributions, paid assignments and, in any case, economic benefits of any kind received from the PA, and to art. 3-quater, par. 2, of Decree Law no. 135/2018 (Simplification Decree), it should be noted that the Allocating Bodies are required to publish the contributions in the National Aids Register, available at: www.rna.gov.it/sites/PortaleRNA/it_US/transparency in the field of State aid and de minimis aid. Amounts relating to transactions carried out during the year involving consideration were not taken into account.

37. Related party transactions

As required by CONSOB Communication pursuant to art. 114, par. 5 of Legislative Decree no. 58/98, protocol number 13046378 of 27 May 2013, transactions with the related parties of the Group are shown in this note.

The procedures adopted by the Group for related party transactions, to ensure transparency and substantial and procedural fairness, are disclosed in the "Report on Corporate Governance and Ownership Structure" and can be viewed on the Company's website www.cairocommunication.it in the *Corporate Governance* section.

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.

The following are identified as related parties:

- the direct and indirect parent entities of Cairo Communication S.p.A., their 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 2018"). The Ultimate Parent of the Group is U.T. Communications S.p.A.;
- directors, statutory auditors, key management personnel and their close relations.

Details are provided in the following tables on related party transactions, broken down by balance sheet heading. Intercompany relations eliminated in the consolidation process are excluded.

Receivables and financial assets (€ millions)	**Trade receivables**	**Receivables from tax consolidation**	**Other current financial assets**
Parents	-	0.9	-
Associates	19.8	-	-
Other affiliates	0.9	-	-
Other related parties	1.1	-	-
Total	**21.8**	**0.9**	**-**

Payables and financial liabilities (€ millions)	**Trade and other payables**	**Other current financial liabilities**	**Other non-current financial liabilities**
Parents	-	-	-
Associates	13.1	6.8	-
Other affiliates	6.2	-	-
Other related parties	-	-	-
Total	**19.3**	**6.8**	**-**

Revenue and costs (€ millions)	**Operating revenue**	**Operating costs**	**Financial income**
Parents	-	-	-
Associates	281.9	(106.9)	0.1
Other affiliates	0.2	(3.6)	-
Other related parties	2.1	(0.3)	-
Total	**284,2**	**(110.8)**	**0.1**

Transactions with associates refer mainly to:

- m-dis Distribuzione Media S.p.A., which operates in Italy as distributor in the newsstand channel for the RCS Group, in respect of which Group companies generated in 2018 revenue of Euro 280.2 million and incurred costs of Euro 85.8 million, and hold trade receivables of Euro 19.8

million, trade payables of Euro 1.9 million, and current financial payables of Euro 5 million;

- the associates in the Bermont Group, in respect of which the Group companies that operate in Spain in the printing of newspapers, magazines and other publishing products (Unidad Editorial Group) generated revenue of Euro 1.6 million and incurred costs of Euro 20.3 million in 2018, and hold trade payables of Euro 11.2 million.

Transactions with affiliates refer mainly to:

- the concession contract between Cairo Pubblicità and Torino FC S.p.A. (a subsidiary of U.T. Communications) for the sale of advertising space at the Olimpico football pitch and promotional sponsorship packages. This contract resulted in the payment in 2018 of Euro 3.3 million to the concession holder against revenue of Euro 4.3 million net of agency discounts. Cairo Pubblicità earned further commissions of Euro 0.1 million;
- the agreement between Cairo Communication S.p.A. and Torino F.C. for the provision of administrative services such as bookkeeping, which provides for an annual consideration of Euro 0.1 million.

Transactions with "other related parties" refer mainly to commercial dealings with the Della Valle and Pirelli groups, in respect of which Group companies generated revenue of Euro 2.1 million and incurred costs of Euro 0.3 million. Trade receivables amounted to Euro 1.1 million.

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

In 2018, Studio Magnocavallo e Associati earned fees for professional services provided to companies of the Cairo Communication Group for approximately Euro 0.3 million.

In 2018, Cairo Communication and its subsidiaries other than those belonging to the RCS Group, paid Directors, Statutory Auditors, General Managers and Key Management Personnel fees totaling Euro 3.6 million. This information is analyzed in detail in the appropriate Remuneration Report, prepared pursuant to art. 123 ter of the TUF.

In 2018, the RCS Group paid Directors, Statutory Auditors and Key Management Personnel fees totaling Euro 7.6 million, explained further in Note 40 below.

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.

It should be noted that:

- with regard to Cairo Communication and its subsidiaries other than those belonging to the RCS Group, there are no agreements in place between the Group companies 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 Cairo Communication 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.

The remuneration report prepared pursuant to art. 123-ter of the TUF and published on the website www.cairocommunication.it contains a description of the plan of long-term incentive adopted in 2018 in favor of some executive directors and key management personnel with strategic responsibilities for the three-year period 2018-2020, which did not entail the recognition of expenses in the period

With regard to RCS, referring to the processes set forth in the event of the cessation or termination of the employment relationship:

- for key management personnel, provision is made contractually for an indemnity of 3.16 times the annual fixed fee in the event of the termination of the employment relationship by means of a unilateral decision by the company, except in the case of just cause, or in the event in which the manager terminates the employment relationship voluntarily in the presence of pre-determined causes indicated in the contract, such as i) loss or reduction in powers, ii) changes of professional position, except where agreed between the parties, iii) substantial changes to company business, iv) loss of hierarchical level, v) change of ownership;
- for another member of key management personnel, provision is made contractually for an indemnity in the event of the termination of the employment relationship by means of a unilateral decision by the company, except in the case of just cause, equal to 3 times the annual fixed fee and the variable fees (MBO).

It should also be noted that there are no succession plans regarding executive directors and that Cairo Communication does not currently have any stock option plans in place.

38. Risk management

The Group manages capital structure and financial risks in accordance with the asset structure, with the aim of maintaining adequate, consistent credit ratings and capital indicator levels, taking account of the current credit supply trend in Italy and in Spain.

The Group constantly monitors the financial risks connected with its business and those relating to its subsidiaries.

Liquidity risk

Liquidity risk may arise from difficulties in obtaining loans to support operations in accordance with the proper timescales, and, if necessary, to repay loans falling due.

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

a) the breakdown of the loan into an amortizing term credit line of Euro 125 million and a revolving credit line of Euro 125 million;
b) an annual interest rate equal to the sum of the benchmark Euribor and a variable spread, depending on the Leverage Ratio;
c) a single covenant based on a Leverage Ratio (i.e., Net debt/EBITDA). The covenant must not exceed (i) 3.25x at 31 December 2018 and (ii) 3x at 31 December of each following year;
d) a repayment schedule for the amortizing term facility, which sets out the repayment in six-month instalments of Euro 12.5 million.

Additionally, mention should be made that in July 2016, as part of the transaction for the acquisition of control of RCS, Cairo Communication had concluded a revolving facility with Intesa Sanpaolo for a total amount of Euro 140 million, aimed at funding both payment of the cash component of the Offer and other general corporate purposes. The loan has a duration of 60 months from the date of first use, with a margin of 48 basis points over the Euribor (for a duration corresponding to the relevant interest

period), and does not require any collateral or financial covenants, or limits to the distribution of dividends by Cairo Communication.

Liquidity analysis

The table below summarizes the equity profile of the Cairo Communication Group's current assets and liabilities at 31 December 2018:

Description	31/12/2018	31/12/2017	Change
Trade receivables and other current assets	322.2	350.8	(28.6)
Inventory	22.9	18.2	4.7
Trade payables and other current liabilities	(445.5)	(510.6)	65.1
Net working capital	**(100.4)**	**(141.6)**	**41.2**
Liquid funds	56.2	128.1	(71.9)
Current financial assets	1.7	0.9	0.8
Current financial liabilities	(63.9)	(73.0)	9.1
Current net financial position	**(6.0)**	**56.0**	**(62.0)**
Difference between current assets and current liabilities	**(106.4)**	**(85.6)**	**(20.8)**

At 31 December 2018, the difference between current assets and liabilities showed a negative balance of Euro 106.5 million, up by Euro 20.9 million versus the prior year (Euro 85.6 million at 31 December 2017), due mainly to partial repayments or minor utilization of medium/long-term loans through the use of cash. In this regard, it should be noted that, at 31 December 2018:

- only approximately Euro 40 million out of a total of Euro 140 million of the medium/long-term revolving loan granted by Banca Intesa to Cairo Communication had been drawn down at 31 December 2018 (Euro 78.2 million at 31 December 2017), while only Euro 45 million out of a total of Euro 125 million of the revolving line envisaged in the RCS loan agreement had been drawn down at 31 December 2018 (Euro 50 million at 31 December 2017). There are medium/long-term undrawn lines for a total of Euro 180 million;
- the publishing companies have a negative net working capital (current assets net of current liabilities, not including financial assets or liabilities) since a portion of the trade receivables (those from sales in the publishing segment) are transformed into cash more quickly than average supplier payment terms;
- the Group attempts to ensure that an appropriate ability to generate cash is maintained, even under

the current market conditions.

The table below summarizes the time profile of the Cairo Communication Group's financial assets and liabilities at 31 December 2018 based on the non-discounted collections and payments set out in the contracts (including principal and interest even if not accrued at the reporting date):

31 December 2018	On demand	< 6 M	6 M - 1 Y	1-2 Y	2-5 Y	> 5 Y	Total
Non-current financial receivables	-	-	-	1.1	0.8	0.3	2.2
Current financial receivables	0.3	0.5	0.6	-	-	-	1.4
Hedging derivatives	-	-	-	-	-	-	-
Cash and cash equivalents	56.2	-	-	-	-	-	56.2
Interest income	-	0.0	0.0	0.0	-	-	0.1
Total financial assets	**56.5**	**0.5**	**0.6**	**1.1**	**0.8**	**0.3**	**59.9**
Financial payables to third parties	13.6	26.8	16.6	23.7	157.9	-	238.6
Hedging derivatives	-	0.3	0.2	0.3	0.2	-	1.1
Financial payables to Group companies	6.8	-	-	-	-	-	6.8
Interest expense	-	1.2	1.2	1.9	4.6	-	8.9
Total financial liabilities	**20.4**	**28.3**	**18.0**	**25.9**	**162.7**	**-**	**255.4**

31 December 2017	On demand	< 6 M	6 M - 1 Y	1-2 Y	2-5 Y	> 5 Y	Total
Non-current financial receivables	-	-	-	0.7	1.5	1.5	3.7
Current financial receivables	0.3	0.1	0.5	-	-	-	0.9
Hedging derivatives	-	-	-	-	-	-	-
Cash and cash equivalents	128.1	-	-	-	-	-	128.1
Interest income	-	0.0	0.0	0.1	0.1	0.1	0.3
Total financial assets	**128.4**	**0.1**	**0.5**	**0.7**	**1.6**	**1.6**	**133.0**
Financial payables to third parties	16.8	34.3	16.6	30.9	99.8	188.4	386.7
Hedging derivatives	-	1.1	0.1	-	(0.1)	-	1.1
Financial payables to Group companies	4.3	-	-	-	-	-	4.3
Interest expense	-	2.6	3.9	6.2	16.5	-	29.2
Total financial liabilities	**21.1**	**38.0**	**20.6**	**37.1**	**116.2**	**188.4**	**421.3**

The amounts shown in the table above, unlike the amounts of total net financial debt, include the interest-bearing portion of non-current financial receivables (Euro 2.2 million).

Interest rate risk

Interest rate risk consists of potential and higher financial expense stemming from an unfavorable and unexpected change in interest rates. At 31 December 2018, the Group holds exclusively floating rate financial instruments and, therefore, is exposed to said risk.

At 31 December 2018, the RCS Group presented a negative net financial position of Euro 187.6 million:

- interest rate risk management is regulated by specific policies that define the risk management objectives, limits, roles and responsibilities of the different functions involved in the process. The use of derivative instruments for speculative purposes is not permitted;
- At 31 December 2018, roughly 83% of loans and borrowings, including finance lease liabilities, were at a contractually fixed rate, or transformed to such via interest rate swaps (IRS) (79% at 31 December 2017). The hedging objective was pursued using the above types of derivatives taken out with highly-rated leading financial institutions. IRSs transform the floating rate into a fixed one (or vice versa) through the periodic swap, with the financial counterparty, of the difference between the fixed-rate interest (swap rate) and floating-rate interest, both calculated on the contractual notional amount.

By contrast, regarding Cairo Communication and its subsidiaries other than those belonging to the RCS Group, which presented a negative net financial position of Euro 1.3 million, the risk is irrelevant.

Sensitivity analysis

The table below shows the results of the sensitivity analysis of interest rate risk, reporting its impact on the income statement and equity, as required by IFRS 7. This analysis was performed assuming a 1% increase/decrease in the relevant interest rate curves.

Sensitivity analysis of interest rate risk on floating rate items	Average underlying	Increase (decrease) of rate	Impact on profit or loss	Impact on equity
2018	(181.3)	1%	(0.7)	3.2
2017	(270.7)	1%	(2.2)	3.7
2018	(181.3)	-1%	0.1	(3.3)
2017	(270.7)	-1%	0.3	(3.8)

Group held floating-rate debt financial instruments at 31 December 2018. The use of interest rate derivatives, transforming liabilities from floating rate to fixed rate, should be noted. Floating-rate

financial instruments included in the sensitivity analysis concern cash and cash equivalents, current and non-current financial receivables and payables, and interest rate derivatives held. The analysis was conducted taking into account:

- the change in interest income and expense during the year attributable to any reasonable changes in interest rates applicable to floating-rate assets and liabilities held during the year;
- the opposite impact in terms of fair value changes in interest rate derivatives recognized in equity for the hedge component beyond the relevant year, and in the income statement, assuming a sudden change in the rate curve at the reporting date. Hedges have a notional amount of Euro 170 million at 31 December 2018 (Euro 243.8 million in 2017) and refer solely to Interest Rate Swaps.

The result of the analysis shows:

- a one percentage point increase in interest rates (+1%) would have a negative impact on the income statement for the period, due to higher financial expense of Euro 0.7 million (Euro 2.2 million for 2017), and a positive impact on equity of Euro 3.2 million (Euro 3.7 million for 2017), as a result of the change in the fair value of interest rate derivatives recognized in equity.
- a one percentage point decrease in interest rates (+1%), taking into account the contractual provisions relating to the applicability of negative rates, would have a positive impact on the income statement for the period, due to lower financial expense of Euro 0.1 million (Euro 2.3 million for 2017), and a negative impact on equity of Euro 3.3 million (Euro 3.7 million for 2017), as a result of the change in the fair value of interest rate derivatives recognized in equity.

Currency risk

Currency risk can be defined as the set of negative effects on balance sheet assets or liabilities arising from changes in exchange rates. The Group did not record significant exposure to currency risk, given that the Euro is the functional currency of the main Group business areas.

The exposure to currency risk is limited to certain commercial and financial positions for an insignificant amount.

Currency risk management is regulated by specific policies that define the risk management objectives, limits, roles and responsibilities within the process. The use of derivative instruments for speculative purposes is not permitted, i.e. not targeted at pursuing the aforementioned objective.

Credit risk

Credit risk can be defined as the possibility of incurring a financial loss due to the counterparty's failure to fulfil its contractual obligations.

The table below shows the Group's maximum exposure to credit risk for equity components, including derivatives:

Description	31/12/2018	31/12/2017	Change
Trade receivables	268.3	293.2	(24.9)
Current financial receivables	1.7	0.9	0.8
Other current assets	43.0	46.8	(3.8)
Non-current financial receivables	2.2	3.8	(1.6)
Other non-current assets	15.0	15.3	(0.3)
Total receivables and other assets	**330.2**	**360.0**	**(29.8)**
Liquid funds	56.2	128.1	(71.9)
Total	**386.4**	**488.1**	**(101.7)**

(1) Other current assets do not include accrued income and prepaid expenses of Euro 10.9 million at 31 December 2018 (Euro 10.8 million at 31 December 2017).

The figures for 2018 include the effects of the adoption of IFRS 9; the Group has made use of the option under IFRS 9 not to recalculate prior-years' comparative information.

The Group is exposed to credit risk, in relation mainly to trade receivables and, specifically, to advertising sales. This risk is, however, mitigated by the fact that exposure is spread over a large number of customers and that monitoring and control procedures are in place to counter the risk. The Group's publishing segments, on the other hand, present less exposure to credit risk, given that, in relation to publishing revenue, the distribution contracts make provision for an advance payment equal to a highly significant percentage of the estimated sales of each product.

Trade receivables, which totaled Euro 268.3 million at 31 December 2018, include Euro 189.9 million referring to the RCS Group (Euro 209.7 million, including transactions with parents, associates and affiliates) and Euro 78.4 million to Cairo Communication and its subsidiaries (excluding the RCS Group) (Euro 80.1 million, including transactions with parents, associates and affiliates). Trade receivables are stated net of an allowance for impairment of Euro 38.4 million.

Gross trade receivables for the RCS Group, including transactions with Group companies, totaled Euro 242.2 million. New customers and customer credit rating is evaluated by an automated credit scoring

system. The rating model applied to Italy uses the "expected default frequency" model prepared by a leading financial information and analysis group. The table below provides information on the quality of the receivables held in the portfolio of the RCS Group and the allocation of the allowance for impairment to the various rating classes identified:

Description	Trade receivables 31/12/2018	Trade receivables 31/12/2017
Rating A (low risk)	44.3	51.8
Rating B (medium risk)	152.3	131.2
Rating C (high risk)	20.8	34.2
Rating Z (not rated)	24.8	53.5
Total	**242.2**	**270.7**
Write-downs	(32.5)	(31.4)
Net total	**209.7**	**239.3**

The category of loans and receivables with a Z Rating mostly refers to loans and receivables from public entities, foreign customers and mass market customers.

With regard to Cairo Communication and its subsidiaries (excluding the RCS Group), trade receivables came to Euro 78.4 million and are stated net of an allowance for impairment of Euro 5.9 million.

The ageing of trade receivables by due date at 31 December 2018 versus 31 December 2017 is as follows:

31 December 2018	Current	Past due 30-60 days	Past due 61-90 days	Past due 91-180 days	Past due over 180 days	Total
Trade receivables	70.7	3.0	1.2	1.8	7.6	**84.3**
Allowance for impairment	(2.5)	(0.1)	(0.1)	(0.2)	(3.0)	**(5.9)**
Receivables from customers	**68.2**	**2.9**	**1.1**	**1.6**	**4.6**	**78.4**

31 December 2017	Current	Past due 30-60 days	Past due 61-90 days	Past due 91-180 days	Past due over 180 days	Total
Trade receivables	68.5	1.9	0.7	1.6	7.8	**80.5**
Allowance for impairment	(2.0)	(0.3)	(0.4)	(0.5)	(3.4)	**(6.6)**
Receivables from customers	**66.5**	**1.6**	**0.3**	**1.1**	**4.4**	**73.9**

Other current and non-current assets include:

- receivables due from the tax authorities amounting to Euro 16.9 million, for which the credit risk is

considered to be insignificant in consideration of the nature of the counterparty;

- advances to agents, associates and suppliers amounting to Euro 12.7 million, for which the credit risk is mitigated by possible offsetting with current and/or future related payables.

The credit risks associated with cash and cash equivalents, with a maximum theoretical exposure of Euro 56.2 million (Euro 128.1 million at 31 December 2017), are considered irrelevant as they are deposits spread across various banks.

Price risk

The Group is not exposed to significant price risks from financial instruments that fall within the scope of application of IAS 39.

39. Financial Instruments: disclosures

As required by IFRS 7, the table below shows the carrying amounts of items included in each category identified by IFRS 9.

The carrying amount generally coincides with the measurement at amortized cost of the financial assets/liabilities, except for derivative instruments and other equity instruments measured at fair value.

In accordance with IFRS 7, sundry receivables and other current assets, shown in the table below do not include tax receivables, accrued income and prepaid expenses and receivables from social security institutions.

Likewise, sundry payables and other current liabilities do not include payables to social security institutions, accrued expenses and deferred income, and untaken holiday entitlement.

Description	31/12/2018	31/12/2017
FINANCIAL ASSETS		
Financial assets at amortized cost		
Non-current financial receivables	2.2	3.8
Other non-current assets	2.0	2.1
Trade receivables	268.3	293.2
Receivables from parents, associates and affiliates	21.6	18.7
Sundry receivables and other current assets	15.1	15.9
Current financial receivables	1.4	0.9
Cash and cash equivalents	56.2	128.1
Financial assets at fair value through profit or loss		
Hedging derivatives	0.3	-
Other non-current equity instruments	-	3.0
Financial assets at fair value through other comprehensive income		
Other non-current equity instruments	2.2	-
TOTAL	**369.3**	**465.7**

FINANCIAL LIABILITIES		
Financial liabilities at amortized cost		
Non-current financial payables and liabilities	182.6	319.1
Other non-current liabilities	-	-
Payables to banks	13.6	16.8
Current financial payables	50.3	56.2
Trade payables	263.6	307.7
Payables to parents, associates and affiliates	19.3	17.2
Sundry payables and other current liabilities	40.0	44.9
Financial liabilities at fair value through profit or loss		
Non-hedging derivatives	-	-
Financial liabilities at fair value through other comprehensive income		
Hedging derivatives	1.1	1.1
TOTAL	**570.5**	**763.0**

Financial assets measured at fair value and recognized in the statement of comprehensive income include securities and equity investments that are not controlled, linked or traded, defined as other equity instruments. The Company generally chooses to measure the instrument at fair value with changes recognized in other comprehensive income.

IFRS 7 requires financial instruments recognized in the statement of financial position at fair value to be

classified on the basis of a three-level fair value hierarchy. The levels of the hierarchy are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: Inputs for the asset or liability which are not based on observable market data.

Assets and liabilities have been classified according to the fair value hierarchy as follows

Hierarchy of fair value measurement for categories of financial instruments at 31/12/2018	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Financial assets at fair value through profit or loss				
Hedging derivatives	-	0.3	-	0.3
Financial assets at fair value through other comprehensive income				
Other equity instruments	0.6	-	1.6	2.2
TOTAL	**0.6**	**0.3**	**1.6**	**2.5**
FINANCIAL LIABILITIES				
Financial liabilities at fair value through other comprehensive income				
Hedging derivatives	-	1.1	-	1.1
TOTAL	-	**1.1**	-	**1.1**

Hierarchy of fair value measurement for categories of financial instruments at 31/12/2017	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Financial assets at fair value through profit or loss				
Other equity instruments	-	-	3.0	3.0
TOTAL	-	-	**3.0**	**3.0**
FINANCIAL LIABILITIES				
Financial liabilities at fair value through other comprehensive income				
Hedging derivatives	-	1.1	-	1.1
TOTAL	-	**1.1**	-	**1.1**

In accordance with IFRS 7, the table below shows the effects of financial instruments on the income statement and equity, which mainly consist of gains and losses arising on the purchase and sale of financial assets and liabilities, as well as from fair value gains or losses and the interest income/expense relating to financial assets/liabilities measured at amortized cost.

	Note	31/12/2018
Net profit (loss) recognized on financial assets and liabilities measured at fair value in profit (loss) for the year		
Other equity instruments		
of which profit (loss) from derecognition	**10**	1.5
Net profit (loss) recognized on financial assets and liabilities measured at amortized cost		
Financial assets		
Allowance for impairment	**8**	(3.4)
Impairment of financial receivables	**10**	(2.4)
Financial liabilities		
of which profit (loss) from derecognition	**11**	(2.5)
of which profit (loss) from re-negotiation	**11**	3.0
Net profit (loss) recognized on investments in equity instruments measured at fair value through other comprehensive income		
Other equity instruments		
of which profit (loss) from change in fair value	**17**	(1.5)
Net gains (losses) recognized on cash flow hedge derivatives		
Hedging instruments		
of which profit (loss) through other comprehensive income	**31**	(0.4)
of which profit (loss) through profit or loss	**11**	(1.2)
Interest income (expense) at the effective interest rate accrued on financial assets/liabilities not through FVPTL		
Interest income on receivables/loans at amortized cost	**11**	0.5
Interest expense on financial liabilities at amortized cost	**11**	(6.9)
Expenses and fees not included in effective interest rate		
Financial liabilities at amortized cost	**11**	(1.9)

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

With regard to Cairo Communication and its subsidiaries other than those belonging to the RCS Group, information is presented below in aggregate form regarding the fees to Directors, Statutory Auditors, General Managers and Key Management Personnel, according to the various forms in which they were paid:

Key management personnel (€ millions)	Cost of services	Personnel expense	Sundry payables and other current liabilities
Board of Directors - fees	(0.3)	-	-
Board of Statutory Auditors - fees	(0.1)	-	0.1
Chief Executive Officers	(1.0)	(0.7)	0.4
Key management personnel	(0.2)	(1.3)	-
Total	**(1.6)**	**(2.0)**	**0.5**

This information is analyzed in detail in the appropriate Remuneration Report, prepared pursuant to art. 123 ter of the TUF.

The consolidated financial statements of Cairo Communication at 31 December 2018 also include, for an amount of Euro 7.6 million, the fees to Directors, Statutory Auditors, and Key Management Personnel attributable to the RCS Group, detailed as follows:

Key management personnel (€ millions)	Cost of services	Personnel expense	Sundry payables and
Board of Directors - fees	(3.4)	-	1.5
Board of Statutory Auditors - fees	(0.2)	-	0.2
Key management personnel	-	(4.0)	0.1
Total	**(3.6)**	**(4.0)**	**1.8**

Regarding key management personnel as defined by the RCS Group, reference should be made to the list in Section I of the Remuneration Report approved by the Shareholders' Meeting of RCS MediaGroup S.p.A. of 26 April 2018 and published on the website www.rcsmediagroup.it.

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

Pursuant to CONSOB Communication of 28 July 2006 no. DEM/6064296, it should be noted that in 2018 the Cairo Communication Group did not engage in any atypical and/or unusual transactions as defined by the above Communication.

The consolidated income statement also includes non-recurring expense and income that had a net positive impact on the consolidated result for the year of Euro 0.2 million net of tax.

42. Events after the reporting period and business outlook

Events after the reporting period and the business outlook are commented on in the Directors’ Report.

Cairo Communication S.p.A.

Consolidated Financial Statements at 31 December 2018 – Appendices

APPENDIX 1

CAIRO COMMUNICATION GROUP COMPANIES

The tables below list 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.

Companies consolidated line-by-line

Company	Registered office	Share capital at 31/12/18	Currency	Investing company	% Direct interest	% Consolid.	Business segment	Consolidation method
Cairo Communication S.p.A.	Milan	6,989,663	Euro				Advertising	Full
Cairo Editore S.p.A.	Milan	1,043,256	Euro	Cairo Communication S.p.A.	99.95	99.95	Publishing	Full
La 7 S.p.A. (former La7 S.r.l.)	Rome	1,020,000	Euro	Cairo Communication S.p.A.	100.00	100.00	TV publishing	Full
Cairo Pubblicità S.p.A.	Milan	2,818,400	Euro	Cairo Communication S.p.A.	100.00	100.00	Advertising	Full
Cairo Network S.r.l.	Milan	5,500,000	Euro	Cairo Communication S.p.A.	100.00	100.00	Network operator	Full
Cairo Publishing S.r.l.	Milan	10,000	Euro	Cairo Communication S.p.A.	100.00	100.00	Publishing	Full
Il Trovatore S.r.l.	Milan	25,000	Euro	Cairo Communication S.p.A.	80.00	80.00	Internet	Full
Diellesei S.r.l. (in liquidation)	Milan	10,000	Euro	Cairo Communication S.p.A.	60.00	60.00	Advertising	Full
Edizioni Anabasi S.r.l.	Milan	10,200	Euro	Cairo Editore S.p.A.	100.00	99.95	Publishing	Full
RCS MediaGroup S.p.A.	Milan	270,000	Euro	Cairo Communication S.p.A.	59.69	59.69	Publishing	Full
RCS Factor S.r.l. in liquidation	Milan	100,000	Euro	RCS Mediagroup S.p.A.	90.00	53.72	Factoring	Full
RCS Digital Ventures S.r.l.	Milan	118,000	Euro	RCS Mediagroup S.p.A.	100.00	59.69	Multimedia	Full
MyBeautyBox S.r.l.	Milan	10,000	Euro	RCS Digital Ventures s.r.l.	60.00	35.81	Multimedia	Full
Blei S.r.l. in liquidation	Milan	1,548,000	Euro	RCS Mediagroup S.p.A.	100.00	59.69	Advertising	Full
RCS Produzioni S.p.A.	Roma	1,000,000	Euro	RCS MediaGroup S.p.A.	100.00	59.69	Production	Full
RCS Produzioni Milano S.p.A.	Milan	1,000,000	Euro	RCS MediaGroup S.p.A.	100.00	59.69	Production	Full
RCS Produzioni Padova S.p.A.	Milan	500,000	Euro	RCS Mediagroup S.p.A.	100.00	59.69	Production	Full
Consorzio Milano Marathon S.r.l.	Milan	20,000	Euro	RCS Sport S.p.A.	100.00	59.69	Services	Full
RCS Sport S.p.A.	Milan	100,000	Euro	RCS Mediagroup S.p.A.	100.00	59.69	Services	Full
Società Sportiva Dilettantistica RCS Active Team–SSD RCS AT a r.l.	Milan	10,000	Euro	RCS Sport S.p.A.	100.00	59.69	Services	Full

Company	Registered office	Share capital at 31/12/18	Currency	Investing company	% Direct interest	% Consolid.	Business segment	Consolidation method
RCS Eventi Sportivi s.r.l.	Milan	10,000	Euro	RCS MediaGroup S.p.A.	100.00	58.69	Services	Full
Digital Factory S.r.l.	Milano	500,000	Euro	Digicast S.p.A.	100.00	59.69	Television	Full
Sfera Service S.r.l.	Milano	52,000	Euro	RCS Mediagroup S.p.A.	100.00	59.69	Services	Full
RCS Edizioni Locali S.r.l.	Milan	1,002,000	Euro	RCS Mediagroup S.p.A.	100.00	59.69	Publishing	Full
Editoriale Del Mezzogiorno S.r.l.	Napoli	1,000,000	Euro	RCS Mediagroup S.p.A.	100.00	59.69	Publishing	Full
Trovolavoro S.r.l.	Milano	674,410	Euro	RCS Mediagroup S.p.A.	100.00	59.69	Advertising	Full
Digicast S.p.A.	Milano	211,560	Euro	RCS MediaGroup S.p.A.	100.00	59.69	Television	Full
Canal Mundo Radio Cataluna S.L.	Barcelona	3,010	Euro	Unidad Editorial S.A.	99.99	59.68	Radio	Full
Corporación Radiofónica Informacion y Deporte S.L.U.	Madrid	900,120	Euro	Unedisa Comunicaciones S.L.U.	100.00	59.68	Radio	Full
Ediciones Cónica S.A.	Madrid	432,720	Euro	Unidad Editorial S.A.	99.40	59.33	Publishing	Full
Ediservicios Madrid 2000 S.L.U.	Madrid	601,000	Euro	Unidad Editorial Revistas S.L.U.	100.00	59.68	Publishing	Full
Editora De Medios De Valencia, Alicante Y Castellon S.L.	Valencia	1,732,345	Euro	Unidad Editorial S.A.	87.23	58.76	Publishing	Full
				Unidad Editorial Informaciòn General S.L.U.	11.22			
A Esfera dos Livros S.L.U.	Lisboa	5,000	Euro	La Esfera de los Libros S.L.	100.00	44.76	Publishing	Full
La Esfera de los Libros S.L.	Madrid	48,000	Euro	Unidad Editorial S.A.	75.00	44.76	Publishing	Full
Información Estadio Deportivo S.A.	Sevilla	154,340	Euro	Unidad Editorial Informaciòn Deportiva S.L.U.	84.97	50.71	Publishing	Full
Last Lap S.L.	Madrid	6,010	Euro	Unidad Editorial Informaciòn Deportiva S.L.U.	100.00	59.68	Services	Full
Last Lap Organiçao de eventos S.L.	Lisboa	30,000	Euro	Last Lap S.L.	99.67	59.68	Services	Full
				Unidad Editorial Informaciòn Deportiva S.L.U.	0.33			
Logintegral 2000 S.A.U.	Madrid	500,000	Euro	Unidad Editorial S.A.	100.00	59.68	Distribution	Full
Unedisa Comunicaciones S.L.U.	Madrid	610,000	Euro	Unidad Editorial S.A.	100.00	59.68	Multimedia	Full
Unedisa Telecomunicaciones S.L.U.	Madrid	1,100,000	Euro	Unidad Editorial S.A.	100.00	59.68	Multimedia	Full
Unedisa Telecomunicaciones de Levante S.L.	Valencia	3,010	Euro	Unedisa Telecomunicaciones S.L.U.	51.16	30.53	Multimedia	Full
Unidad Editorial S.A.	Madrid	125,896,898	Euro	RCS Mediagroup S.p.A.	99.99	59.68	Publishing	Full
Unidad Liberal Radio S.L.	Madrid	10,000	Euro	Unidad Editorial S.A.	55.00	32.83	Multimedia	Full
Unidad de Medios Digitales S.L.	Madrid	3,000	Euro	Unidad Editorial S.A.	50.00	29.84	Advertising	Full

Company	Registered office	Share capital at 31/12/18	Currency	Investing company	% Direct interest	% Consolid.	Business segment	Consolidation method
Unidad Editorial Informaciòn Deportiva S.L.U.	Madrid	4,423,043	Euro	Unidad Editorial S.A.	100.00	59.68	Multimedia	Full
Unidad Editorial Informaciòn Economica S.L.U.	Madrid	102,120	Euro	Unidad Editorial S.A.	100.00	59.68	Publishing	Full
Unidad Editorial Formacion S.L.U.	Madrid	1,693,000	Euro	Unedisa Telecomunicaciones S.L.U.	100.00	59.68	Television	Full
Unidad Editorial Informaciòn General S.L.U.	Madrid	102,120	Euro	Unidad Editorial S.A.	100.00	59.68	Publishing	Full
Unidad Editorial Juegos S.A.	Madrid	100,000	Euro	Unidad Editorial S.A.	100.00	59.68	Multimedia	Full
Unidad Editorial Revistas S.L.U.	Madrid	1,195,920	Euro	Unidad Editorial S.A.	100.00	59.68	Publishing	Full
Veo Television S.A.	Madrid	769,824	Euro	Unidad Editorial S.A.	100.00	59.68	Television	Full
Feria Bebe S.L.	Barcellona	10,000	Euro	Sfera Editores Espana S.L.	60.00	35.81	Publishing	Full
Sfera Direct S.L.	Barcellona	3,006	Euro	Sfera Editores Espana S.L.	100.00	59.69	Publishing	Full
Sfera Editores Espana S.L.	Barcellona	174,000	Euro	RCS Mediagroup S.p.A.	100.00	59.69	Publishing	Full
Sfera Editores Mexico S.A.	Colonia Anzures	34,661,200	MXN	RCS Mediagroup S.p.A.	100.00	59.69	Publishing/Services	Full
				Sfera Service S.r.l.	0.00			
Sfera France SAS	Parigi	240,000	Euro	Sfera Editores Espana S.L.	66.70	39.81	Publishing	Full
Hotelyo S.A.	Chiasso	100,000	CHF	RCS Mediagroup S.p.A.	51.00	30.44	Digital	Full
RCS Sports and Events DMCC	Dubai	20,077	Euro	RCS Sport S.p.A.	100.00	59.69	Services	Full

Companies consolidated at equity

Company	Registered office	Share capital at 31/12/18	Currency	Investing company	% Direct interest	Business segment	Consolidation method
Quibee S.r.l.	Torino	15,873	Euro	RCS Digital Ventures s.r.l.	37.00	Digital	Equity
Consorzio C.S.E.D.I.	Milano	103,291	Euro	M-Dis Distribuzione Media S.p.A.	20.00	Distribution	Equity
Liguria Press S.r.l.	Genova	240,000	Euro	M-Dis Distribuzione Media S.p.A.	40.00	Distribution	Equity
GD Media Service S.r.l.	Milano	789,474	Euro	M-Dis Distribuzione Media S.p.A.	29.00	Distribution	Equity
M-Dis Distribuzione Media S.p.A.	Milano	6,392,727	Euro	RCS MediaGroup S.p.A.	45.00	Distribution	Equity
MDM Milano Distribuzione Media S.r.l.	Milano	611,765	Euro	M-Dis Distribuzione Media S.p.A.	51.00	Distribution	Equity
Pieroni Distribuzione S.r.l.	Milano	750,000	Euro	M-Dis Distribuzione Media S.p.A.	51.00	Distribution	Equity
TO-dis S.r.l.	Milano	510,000	Euro	M-Dis Distribuzione Media S.p.A.	100.00	Distribution	Equity
Trento Press Service S.r.l.	Trento	260,000	Euro	M-Dis Distribuzione Media S.p.A.	36.92	Distribution	Equity
Corporacion Bermont S.L.	Madrid	21,003,100	Euro	Unidad Editorial S.A.	37.00	Print media	Equity
Bermont Catalonia S.A.	Barcelona	60,101	Euro	Corporacion Bermont S.L.	100.00	Print media	Equity
Bermont Impresion S.L.	Madrid	321,850	Euro	Corporacion Bermont S.L.	100.00	Print media	Equity
Calprint S.L.	Valladolid	1,856,880	Euro	Corporacion Bermont S.L.	39.58	Print media	Equity
Escuela de Cocina Telva S.L.	Madrid	61,000	Euro	Ediciones Cónica S.A.	50.00	Training	Equity
Impresiones y distribuciones de Prensa Europea S.A.	Madrid	60,101	Euro	Corporacion Bermont S.L.	100.00	Print media	Equity
Lagar S.A.	Madrid	150,253	Euro	Corporacion Bermont S.L. Bermont Impresion S.L.	60.00 40.00	Print media	Equity
Madrid Deportes y Espectáculos S.A. (in liquidation)	Madrid	600,000	Euro	Unidad Editorial Informaciòn Deportiva S.L.U.	30.00	Multimedia	Equity
Newsprint Impresion Digital S.L.		93,000	Euro	TF Print S.A.	50.00	Print media	Equity
Omniprint S.A.	Santa Maria del Cami	2,790,000	Euro	Corporacion Bermont S.L.	100.00	Print media	Equity
Radio Salud S.A.	Barcelona	200,782	Euro	Unedisa Comunicaciones S.L.U.	30.00	Radio	Equity
Recoprint Dos Hermanas S.L.U.	Madrid	2,052,330	Euro	Corporacion Bermont S.L.	100.00	Print media	Equity
Recoprint Güimar S.L.U.	Madrid	1,365,140	Euro	Corporacion Bermont S.L.	100.00	Print media	Equity
Recoprint Impresiòn S.L.U.	Madrid	3,010	Euro	Corporacion Bermont S.L.	100.00	Print media	Equity
Recoprint Pinto S.L.U.	Madrid	3,652,240	Euro	Corporacion Bermont S.L.	100.00	Print media	Equity
Recoprint Rábade S.L.U.	Madrid	1,550,010	Euro	Corporacion Bermont S.L.	100.00	Print media	Equity
Recoprint Sagunto S.L.U.	Madrid	2,281,920	Euro	Corporacion Bermont S.L.	100.00	Print media	Equity
TF Press S.L.	Santa Cruz de Tenerife	3,005	Euro	Corporacion Bermont S.L.	100.00	Print media	Equity
TF Print S.A.	Santa Cruz de Tenerife	1,382,328	Euro	Corporacion Bermont S.L. Bermont Impresion S.L.	75.00 25.00	Print media	Equity
Unidad Liberal Radio Madrid S.L.	Madrid	10,000	Euro	Unidad Editorial S.A. Libertad Digital S.A.	45.00 55.00	Multimedia	Equity
Inimm Due S.à.r.l.	Lussemburgo	240,950	Euro	RCS MediaGroup S.p.A.	20.00	Real Estate	Equity

Investments in other companies

Company	Registered office	Share capital at 31/12/18	Currency	Investing company	% Direct interest	Business segment	Consolidation method
Auditel S.r.l.	Milan	300,000	Euro	La7 S.p.A.	3.33	Television	Cost
Ansa Società Cooperativa	Roma	10,783,362	Euro	RCS Mediagroup S.p.A.	4.38	Publishing	Cost
Cefriel S.c.a.r.l	Milan	1,173,393	Euro	RCS Mediagroup S.p.A.	5.46	Research	Cost
Consuledit S.c.a.r.l. (in liquidation)	Milan	20,000	Euro	RCS Mediagroup S.p.A.	19.55	Publishing	Cost
H-Farm S.p.A.	Roncade (TV)	8,924,165	Euro	RCS MediaGroup S.p.A	0.75	Services	Cost
Immobiliare Editori Giornali S.r.l.	Roma	830,462	Euro	RCS MediaGroup S.p.A	7.49	Publishing	Cost
ItaliaCamp S.r.l.	Roma	10,000	Euro	RCS MediaGroup S.p.A	3.00	Services	Cost
Mode et Finance Société par actions simplifiée en liquidation	Parigi	6,965,714	Euro	RCS MediaGroup S.p.A	4.62	Clothing	Cost
Mach 2 Libri S.p.A.	Peschiera B.	646,250	Euro	RCS MediaGroup S.p.A	19.09	Publishing	Cost
Digital Magics S.p.A.	Milano	7,415,086	Euro	RCS Digital Ventures s.r.l.	0.39	Multimedia	Cost
Mperience S.r.l.	Roma	26,718	Euro	RCS Digital Ventures s.r.l.	2.00	Digital	Cost
Fantaking Interactive S.r.l.	Brescia	10,000	Euro	RCS Digital Ventures s.r.l.	15.00	Digital	Cost
The Gira s.r.l.	Milano	11,111	Euro	RCS Sport S.p.A.	9.25	Services	Cost
Consorzio Edicola Italiana	Milano	60,000	Euro	RCS Mediagroup S.p.A.	16.67	Digital	Cost
SportPesa Italy S.r.l.	Milano	10,000	Euro	RCS MediaGroup S.p.A.	25.00	Multimedia	Cost
Premium Publisher Network (Consortium)	Milano	19,426	Euro	RCS MediaGroup S.p.A.	20.51	Advertising	Cost
Giorgio Giorgi Srl	Calenzano (FI)	1,000,000	Euro	M-Dis Distribuzione Media S.p.A.	5.00	Distribution	Cost
Cronos Producciones Multimedia S.L.U.	Madrid	3,010	Euro	Libertad Digital Television S.A.	100.00	Publishing	Cost
Digicat Sis S.L.	Barcelona	3,200	Euro	Radio Salud S.A.	25.00	Radio	Cost
Libertad Digital S.A.	Madrid	2,582,440	Euro	Unidad Editorial S.A.	1.16	Multimedia	Cost
Libertad Digital Publicidad y Marketing S.L.U	Madrid	3,010	Euro	Libertad Digital S.A.	100.00	Advertising	Cost
Libertad Digital Television S.A.	Madrid	2,600,000	Euro	Libertad Digital S.A.	99.66	Television	Cost
Medios de Azahar S.A.	Castellon	825,500	Euro	Editora De Medios De Valencia, Alicante Y Castellon S.A.	6.12	Services	Cost
Palacio del Hielo S.A.	Madrid	185,742	Euro	Unidad Editorial S.A.	8.53	Multimedia	Cost
Suscribe S.L.	Palma de Mallorca	300,000	Euro	Logintegral 2000 S.A.U.	15.00	Publishing	Cost
Wouzee Media S:L	Madrid	14,075	Euro	Unidad Editorial S.A.	10.00	Multimedia	Cost
13 TV S.A	Madrid	2,974,980	Euro	Unidad Editorial S.A.	1.50	Multimedia	Cost
Yoodeal Ltd	Crowborough	150,000	GBP	RCS Digital Ventures s.r.l.	2.00	Digital	Cost

ANNEX 2

RELATED PARTY TRANSACTIONS

The tables below provide details on related party transactions of the Cairo Communication Group:

Parents (€ millions)	**Trade receivables**	**Other receivables and current assets**	**Receivables from tax consolidation**	**Other current financial assets**
U.T. Communication S.p.A.	-	-	0.9	-
Total	**-**	**-**	**0.9**	**-**

Associates (€ millions)	**Trade receivables**	**Other receivables and current assets**	**Receivables from tax consolidation**	**Other current financial assets**
M-DIS Distribuzione media	19.8	-	-	-
Total	**19.8**	**-**	**-**	**-**

Associates **Equity transactions** (€ millions)	**Trade payables**	**Other payables and current liabilities**	**Payables from tax consolidation**	**Other current financial liabilities**
M-DIS Distribuzione media	1.9	-	-	5.0
MDM Milano Distribuzione Media S.r.l.	-	-	-	1.6
To-dis S.r.l.	-	-	-	0.2
Bermont Impresion S.L.	4.3	-	-	-
Recoprint Dos Hermanas S.L.U. (Bermont Group)	1.2	-	-	-
Recoprint Sagunto S.L.U. (Bermont Group)	1.4			-
Calprint S.l. (Bermont Group)	0.8	-	-	-
Omniprint S.A. (Bermont Group)	0.7	-	-	-
Bermont Catalonia S.A. (Bermont Group)	1.1	-	-	-
TF Print S.A. (Bermont Group)	0.6	-	-	-
Recoprint Ràbade S.L.U. (Bermont Group)	1.0	-	-	-
Recoprint Impresiòn S.L.U. (Bermont Group)	0.1	-	-	-
Total	**13.1**	**-**	**-**	**6.8**

Companies subject to the control of parents (€ millions)	**Trade receivables**	**Other receivables and current assets**	**Receivables from tax consolidation**	**Other current financial assets**
Torino FC S.p.A.	0.9	-	-	-
Total	**0.9**	**-**	**-**	**-**

Companies subject to the control of parents (€ millions)	Trade payables	Other payables and current liabilities	Payables from tax consolidation	Other current financial liabilities
Torino FC S.p.A.	6.2	-	-	-
Total	**6.2**	**-**	**-**	**-**

Other related parties (€ millions)	Trade receivables	Other receivables and current assets	Receivables from tax consolidation	Other current financial assets
Della Valle Group companies	1.1	-	-	-
Pirelli Group companies	-	-	-	-
Total	**1.1**	**-**	**-**	**-**

Associates (€ millions)	Operating revenue	Operating costs	Financial income	Financial expense
M-DIS Distribuzione media	280.2	(85.8)	0.1	-
MDM Milano Distribuzione Media S.r.l.	-	(0.1)	-	-
Bermont Impresion S.L.	1.6	(6.4)	-	-
Recoprint Dos Hermanas S.L.U. (Bermont Group)	-	(2.8)	-	-
Recoprint Sagunto S.L.U. (Bermont Group)	-	(2.3)	-	-
Calprint S.l. (Bermont Group)	-	(2.3)	-	-
Omniprint S.A. (Bermont Group)	-	(1.1)	-	-
Bermont Catalonia S.A. (Bermont Group)	-	(2.0)	-	-
TF Print S.A. (Bermont Group)	-	(1.3)	-	-
Recoprint Ràbade S.L.U. (Bermont Group)	-	(1.9)	-	-
Radio Salud S.A.	0.1	(0.7)	-	-
Recoprint Impresiòn S.L.U. (Bermont Group)	-	(0.2)	-	-
Total	**281.9**	**(106.9)**	**0.1**	**-**

Companies subject to the control of parents (€ millions)	Operating revenue	Operating costs	Financial income	Financial expense
Torino FC S.p.A.	0.3	(3.6)	-	-
Total	**0.3**	**(3.6)**	**-**	**-**

Other related parties (€ millions)	Operating revenue	Operating costs	Financial income	Financial expense
Della Valle Group companies	2.0	-	-	-
Pirelli Group companies	0.1	-	-	-
Supplementary Pension Fund for Senior Managers (	-	(0.3)	-	-
Total	**2.1**	**(0.3)**	**-**	**-**

Appendix

Information pursuant to Article 149-duodecies of CONSOB Issuer Regulations

The following summary, prepared pursuant to art. 149-xii of CONSOB Issuer Regulations, shows the fees for the current period for auditing services and for non-audit services provided by the Independent Auditors.

(€ millions)	Services provided by	Fees for the year
Audit		
Parent - Cairo Communication S.p.A.	KPMG S.p.A.	0.1
Subsidiaries - excluding RCS MediaGroup and subsidiaries	KPMG S.p.A.	0.2
Other services		-
Parent - Cairo Communication S.p.A. (**)	KPMG (*)	0.1
Subsidiaries (***)	KPMG (*)	0.1
Total		**0.5**

(*) Other companies included in the network of KPMG S.p.A.

(**) Risk assessment services, methodological support and assistance to Management in updating the mapping of corporate risks and in testing activities under Law 262/05 and related gap analysis, methodological support and assistance to Management in the reporting of non-financial information. Other services include the limited audit of the Consolidated Non-Financial Statement of the Cairo Communication Group.

(***) Risk assessment and gap analysis services as part of the process of updating the Model pursuant to Legislative Decree 231/01, assistance to Management in testing activities under Law 262/05 and related gap analysis, methodological support and assistance to Management in the reporting of non-financial information.

Auditing and other services to RCS MediaGroup and its subsidiaries are provided by the Independent Auditors Deloitte & Touche S.p.A. as shown in the table below:

(€ millions)	Services provided by	Fees for the year
Audit		
RCS MediaGroup S.p.A.	Deloitte & Touche S.p.A.	0.4
Subsidiaries	Deloitte & Touche S.p.A.	0.5
Other services (*)		-
RCS MediaGroup S.p.A.	Deloitte & Touche S.p.A.	0.0
Subsidiaries	Deloitte & Touche S.p.A.	0.0
Total		**0.9**

(*) These include certification services relating to the Consolidated Non-Financial Statement of RCS MediaGroup (Euro 19 thousand); and other consulting services provided to a Spanish subsidiary of RCS MediaGroup (Euro 26 thousand).

Cairo Communication S.p.A.

Consolidated Financial Statements at 31 December 2018

Statement of the Financial Reporting Manager and the Chief Executive Officer and Report on the Audit of the consolidated financial statements

Certification of the consolidated financial statements pursuant to article 81 ter of CONSOB Regulation no. 11971 of 14 May 1999 as subsequently amended and supplemented

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 no. 58 of 24 February 1998, certify:

• the adequacy of the characteristics of the Company and

• the effective application of administrative and accounting procedures for the preparation of the 2018 consolidated financial statements.

2. We also certify that:

2.1 the consolidated financial statements at 31 December 2018:

a) have been prepared in compliance with International Financial Reporting Standards endorsed by the European Union, pursuant to EEC Regulation no. 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 they are exposed to.

Milan, 26 March 2019

For the Board of Directors Chairman	Financial Reporting Manager
…………………………………………..	……………………………………………
(Urbano Roberto Cairo)	(Marco Pompignoli)

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI
Telefono +39 02 6763.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
Cairo Communication S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Cairo Communication Group (the "Group"), which comprise the consolidated income statement at 31 December 2018, the consolidated statements of comprehensive income, financial position, cash flows and changes in equity for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Cairo Communication Group as at 31 December 2018 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of Cairo Communication S.p.A. (the "Company") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

Ancona Aosta Bari Bergamo
Bologna Bolzano Brescia
Catania Como Firenze Genova
Lecce Milano Napoli Novara
Padova Palermo Parma Perugia
Pescara Roma Torino Treviso
Trieste Varese Verona

Società per azioni
Capitale sociale
Euro 10.345.200,00 i.v.
Registro Imprese Milano e
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Partita IVA 00709600159
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20124 Milano MI ITALIA

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of the carrying amount of goodwill and intangible assets with an indefinite useful life

Notes to the consolidated financial statements: Note 16 "Intangible assets"

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements at 31 December 2018 comprise intangible assets of €994.0 million, including goodwill of €198.5 million, trademarks and daily newspaper titles with an indefinite useful life of €644.0 million and television and radio licences with an indefinite useful life of €12.6 million. The Group tests the carrying amounts of goodwill and other intangible assets with an indefinite useful life for impairment at least annually and whenever there are indicators of impairment, by comparing them to the related recoverable amounts. The Group calculated the recoverable amount of goodwill and intangible assets with an indefinite useful life by estimating their value in use, using a method that discounts their expected cash flows. The model is very complex and entails the use of estimates which, by their very nature, are uncertain and subjective, about: — the expected cash flows, calculated by taking into account the general economic performance and that of the Group's sector, the actual cash flows for past years and the projected growth rates; — the financial parameters used to calculate the discount rate. For the above reasons and due to the materiality of the relevant captions, we believe that the recoverability of the carrying amount of goodwill and intangible assets with an indefinite useful life is a key audit matter.	Our audit procedures included: — understanding the process adopted for impairment testing approved by the Company's board of directors. — understanding the process adopted to prepare the forecasts from which the expected cash flows used for impairment testing have been derived; — analysing the reasonableness of the assumptions used by the Group to prepare the forecasts; — checking any discrepancies between the previous year forecast and actual figures, in order to check the accuracy of the estimation process; — comparing the expected cash flows used for impairment testing to those used for the forecasts and analysing the reasonableness of any discrepancies; — involving experts of the KPMG network in the assessment of the reasonableness of the impairment testing model and related assumptions, including by means of a comparison with external data and information; — checking the sensitivity analysis presented in the notes in relation to the key assumptions used for impairment testing; — assessing the appropriateness of the disclosures provided in the notes about the recoverability of goodwill and intangible assets with an indefinite useful life.

Measurement of deferred tax assets and liabilities

Notes to the consolidated financial statements: Notes 20 "Deferred tax assets" and 29 "Provisions for risks and charges and provision for deferred tax"

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements at 31 December 2018 include deferred tax assets of €103.0 million, of which €38.4 million and €64.6 million relating to tax losses carried forward and temporary differences, respectively, and deferred tax liabilities of €165.3 million. The Group calculated the recoverable amount of deferred tax assets and the settlement amount of deferred tax liabilities considering many factors, including: — the calculation of temporary differences and tax losses carried forward; — the estimated taxable profits based on forecasts and assumed tax adjustments; — the effect of the domestic tax consolidation scheme. Measuring these captions entails the use of estimates which, by their very nature, are uncertain and subjective. For the above reasons and due to the materiality of the relevant captions, we believe that the measurement of deferred tax assets and liabilities is a key audit matter.	Our audit procedures included: — understanding the process used to estimate the deferred tax assets' recoverable amount and the deferred tax liabilities' settlement amount; — analysing the reasonableness of the assumptions used by the Group to prepare the forecasts; — checking any discrepancies between the previous year forecast and actual figures, in order to check the accuracy of the estimation process; — checking the consistency between forecasts and estimated taxable profits; — assessing the appropriateness of the disclosures provided in the notes about the measurement of deferred tax assets and liabilities.

Recognition of advertising revenue

Notes to the consolidated financial statements: Note 1 "Net revenue"

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements at 31 December 2018 include net advertising revenue of €560.9 million, of which €405.8 million relating to the RCS MediaGroup Group. The Group recognises revenue from contracts with customers differently depending on when control over the goods or services is transferred to the customer and on the type of consideration to which it is entitled.	Our audit procedures included: — understanding the process for the recognition of advertising revenue and the related IT environment; — assessing the design, implementation and operating effectiveness of controls deemed material for the purposes of our audit;

Specifically, with respect to the advertising services: — they are numerous and the contract terms applied to customers vary significantly while the IT systems used to recognise advertising revenue are complex; — revenue from the sale of advertising space is recognised based on the advertisement's circulation date or newspaper's/magazine's publication date in the traditional media segment and on the advertisement's circulation or publication date in the digital segment. For the above reasons and considering the materiality of the caption, we believe that the recognition of advertising revenue, and especially its accuracy and accruals-based accounting, are a key audit matter.	— comparing the main components of advertising revenue to the budgeted and previous year figures and discussing the results with the relevant internal departments; — checking the consistency of the 2018 sales of advertising space recorded in the management account system with the advertising revenue figures recognised in the consolidated financial statements; — checking the documentation supporting a sample of sales of advertising space, selected on the basis of their volumes and timing and checking whether the service has been actually provided and the related revenue correctly recognised on an accruals basis; — assessing the disclosures provided in the notes about the recognition of advertising revenue.

Responsibilities of the Company's directors and board of statutory auditors ("Collegio Sindacale") for the consolidated financial statements

The 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 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the Company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually

or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 28 April 2011, the Company's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2011 to 31 December 2019.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The Company's directors are responsible for the preparation of the Group's directors' report and report on corporate governance and ownership structure at 31 December 2018 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the Group's consolidated financial statements at 31 December 2018 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the Group's consolidated financial statements at 31 December 2018 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254/16

The directors of Cairo Communication S.p.A. are responsible for the preparation of a consolidated non-financial statement pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such consolidated non-financial statement. In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the non-financial statement separately.

Milan, 29 March 2019

KPMG S.p.A.

(signed on the original)

Francesco Cuzzola
Director of Audit

CAIROCOMMUNICATION

Cairo Communication S.p.A.
Financial statements at 31 December 2018

Income statement at 31 December 2018

	Notes	2018	2017
Net revenue	1	6,909,959	105,521,825
Other revenue and income	2	705,878	1,153,969
Services	3	(3,499,490)	(102,690,142)
Use of third-party assets	3	(749,685)	(749,363)
Personnel expense	4	(3,172,666)	(3,156,437)
Amortization, depreciation, provisions and impairment losses	5	(208,191)	(262,238)
Other operating costs	3	(83,168)	(146,545)
EBIT		**(97,363)**	**(328,931)**
Net financial income (expense)	6	(482,517)	(477,416)
Income (loss) on investments	7	7,101,262	8,283,067
Profit (loss) before tax		**6,521,382**	**7,476,720**
Tax	8	(63,288)	(170,622)
Profit from continuing operations		**6,458,094**	**7,306,098**
Loss from discontinued operations		0	(47)
Profit for the year		**6,458,094**	**7,306,051**

Statement of comprehensive income at 31 December 2018

	2018	2017
Profit for the year	**6,458,094**	**7,306,051**
Other reclassifiable items of the comprehensive income statement	-	-
Profit (loss) from the measurement of available-for-sale financial assets	-	-
Tax effect	-	-
Other non-reclassifiable items of the comprehensive income statement		
Actuarial profit (loss) from defined benefit plans	6,199	(64,675)
Tax effect	(1,488)	15,522
Total comprehensive income	**6,462,805**	**7,256,898**

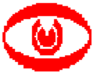
Statement of financial position

Euro Assets	Notes	31 December 2018	31 December 2017
Property, plant and equipment	9	266,096	332,728
Intangible assets	10	181,675	210,891
Investments	11	328,977,658	328,925,736
Other non-current financial assets	12	24,225,042	16,812,638
Prepaid tax assets	13	3,589,131	3,034,589
Total non-current assets		**357,239,602**	**349,316,582**
Trade receivables	14	419,269	669,277
Receivables from parents	22	155,719	155,719
Receivables from subsidiaries	15	48,334,151	48,394,532
Sundry receivables and other current assets	16	871,955	1,946,097
Cash and cash equivalents	17	4,304,578	6,557,226
Total current assets		**54,085,672**	**57,722,851**
Total assets		**411,325,273**	**407,039,434**

Equity and liabilities		31 December 2018	31 December 2017
Share capital	18	6,989,663	6,989,663
Share premium reserve	18	236,435,654	242,802,345
Retained earnings	18	89,055	323,737
Other reserves	18	1,639,669	1,408,587
Treasury shares	18	(2,352)	(2,352)
Profit for the year	18	6,458,094	7,306,051
Total equity		**251,609,783**	**258,828,031**
Non-current financial payables and liabilities	17	40,000,000	78,200,000
Post-employment benefits	19	1,395,072	1,346,887
Provisions for risks and charges	20	177,251	177,251
Total non-current liabilities		**41,572,323**	**79,724,138**
Trade payables	21	2,974,727	3,321,926
Payables to subsidiaries	23	72,150,636	62,909,118
Financial payables to subsidiaries	24	40,030,685	-
Tax payables	25	847,867	237,138
Other current liabilities	26	2,139,252	2,019,083
Total current liabilities		**118,143,167**	**68,487,265**
Total liabilities		**159,715,490**	**148,211,403**
Total equity and liabilities		**411,325,273**	**407,039,434**

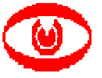
Statement of cash flows

Euro/000	2018	2017
CASH AND CASH EQUIVALENTS	**6,557**	**4,431**
OPERATIONS		
Profit	6,458	7,306
Amortization, depreciation, provisions and impairment losses	208	262
Impairment losses on investments	28	207
Net financial income	(6,647)	(8,012)
Income tax	63	171
Change in post-employment benefits	48	150
Change in provisions for risks and charges	0	0
Cash flow from operations before changes in working capital	**159**	**83**
(Increase) decrease in trade and other receivables	830	(1,907)
Increase (decrease) in payables to suppliers and other liabilities	9,046	7,874
TOTAL CASH FLOW FROM OPERATIONS	**10,035**	**6,049**
Income tax paid	(40)	0
Financial expense paid	(482)	(477)
TOTAL NET CASH FROM OPERATIONS (A)	**9,513**	**5,572**
INVESTING ACTIVITIES		
(Acquisition) net disposals of PPE and intangible assets	(112)	(118)
Interest and financial income received	0	1
Dividends received	7,129	8,489
Net (increase) in other non-current assets	(6,937)	(5,050)
NET CASH USED IN INVESTING ACTIVITIES (B)	**79**	**3,322**
FINANCING ACTIVITIES		
Dividends paid	(13,441)	(6,720)
Increase (decrease) in financial payables	1,831	0
Other changes in equity	(234)	(49)
NET CASH USED IN FINANCING ACTIVITIES (C)	**(11,845)**	**(6,769)**
NET CASH FLOW OF THE YEAR (A) + (B) + (C)	**(2,252)**	**2,126**
NET CASH AND CASH EQUIVALENTS CLOSING BALANCE	**4,305**	**6,557**



Statement of changes in equity

(€ thousands)	Share capital	Share premium reserve	Retained earnings	Other reserves	Treasury shares	Profit for the year	Equity
Balance at 31 December 2015	**4,074**	**30,495**	**414**	**1,057**	**(2)**	**8,110**	**44,148**
Allocation of profit			8,110			(8,110)	0
Dividend distribution		(7,559)	(8,110)				(15,669)
Actuarial profit (loss) from defined benefit plans			(10)			10	0
Share capital increase to service the OPAS on RCS MediaGroup S.p.A.	2,916	224,121					227,037
Ancillary costs to the capital increase net of tax effect		(4,255)					(4,255)
Total comprehensive profit for the year						7,031	7,031
Balance at 31 December 2016	**6,990**	**242,802**	**404**	**1,057**	**(2)**	**7,041**	**258,292**
Allocation of profit			6,689	352		(7,041)	0
Dividend distribution			(6,720)				(6,720)
Actuarial profit (loss) from defined benefit plans			(49)			49	0
Total comprehensive profit for the year						7,257	7,257
Balance at 31 December 2017	**6,990**	**242,802**	**324**	**1,409**	**(2)**	**7,306**	**258,828**
Effects from the application of IFRS 9			(239)				**(239)**
Adjusted balance at 31 December 2017	**6,990**	**242,802**	**84**	**1,409**	**(2)**	**7,306**	**258,588**
Allocation of profit			7,075	231		(7,306)	0
Dividend distribution		(6,366)	(7,075)				(13,441)
Actuarial profit (loss) from defined benefit plans			5			(5)	0
Total comprehensive profit for the year						6,463	6,463
Balance at 31 December 2018	**6,990**	**236,436**	**89**	**1,640**	**(2)**	**6,458**	**251,610**



Income statement pursuant to CONSOB Resolution no. 15519 of 27 July 2006

Euro	Notes	2018	Related parties (*)	% of total	2017	Related parties (*)	% of total
Net revenue	1	6,909,959	6,880,725	99.58%	105,521,825	105,489,773	99.97%
Other revenue and income	2	705,878	616,594	87.35%	1,153,969	669,563	58.0%
Services	3	(3,499,490)	(241,540)	6.9%	(102,690,142)	(95,828,901)	93.3%
Use of third-party assets	3	(749,685)	(653,291)	87.1%	(749,363)	(358,000)	47.8%
Personnel expense	4	(3,172,666)			(3,156,437)		
Amortization, depreciation, provisions and impairment losses	5	(208,191)			(262,238)		
Other operating costs	3	(83,168)			(146,545)		
EBIT		**(97,363)**			**(328,931)**		
Net financial income (expense)	6	(482,517)	(30,685)	6.4%	(477,416)		
Income (loss) on investments	7	7,101,262	7,101,262	100.0%	8,283,067	8,283,067	100.0%
Profit (loss) before tax		**6,521,382**			**7,476,720**		
Tax	8	(63,288)			(170,622)		
Profit from continuing operations		**6,458,094**			**7,306,098**		
Loss from discontinued operations		-	-		(47)	(47)	100.0%
Profit for the year		**6,458,094**			**7,306,051**		

(*) Related party transactions are analyzed in Note 28

Statement of financial position pursuant to CONSOB Resolution no. 15519 of 27 July 2006

Euro Assets	31 December 2018	Related parties (*)	% of total	31 December 2017	Related parties (*)	% of total
Property, plant and equipment	266,096			332,728		
Intangible assets	181,675			210,891		
Investments	328,977,658	328,977,658	100.0%	328,925,736	328,925,736	100.0%
Non-current financial assets	24,225,042	24,223,326	99.99%	16,812,638	16,800,000	99.9%
Deferred tax assets	3,589,131			3,034,589		
Total non-current assets	**357,239,602**			**349,316,582**		
Trade receivables	419,269	61,000	14.5%	669,277	30,500	4.6%
Receivables from parents	155,719	155,719	100.0%	155,719	155,719	100.0%
Receivables from subsidiaries	48,334,151	48,334,151	100.0%	48,394,532	48,394,532	100.0%
Sundry receivables and other current assets	871,955			1,946,097		
Cash and cash equivalents	4,304,578			6,557,226		
Total current assets	**54,085,672**			**57,722,851**		
Total assets	**411,325,273**			**407,039,434**		

Equity and liabilities	31 December 2018			31 December 2017		
Share capital	6,989,663			6,989,663		
Share premium reserve	236,435,654			242,802,345		
Retained earnings	89,055			323,737		
Other reserves	1,639,669			1,408,587		
Treasury shares	(2,352)			(2,352)		
Profit for the year	6,458,094			7,306,051		
Total equity	**251,609,783**			**258,828,031**		
Non-current financial payables and liabilities	40,000,000			78,200,000		
Post-employment benefits	1,395,072			1,346,887		
Provisions for risks and charges	177,251	142,001	80.1%	177,251	142,001	80.1%
Total non-current liabilities	**41,572,323**			**79,724,138**		
Trade payables	2,974,727	16,554	0.6%	3,321,926	16,554	0.5%
Payables to subsidiaries	72,150,636	72,150,636	100.0%	62,909,118	62,909,118	100.0%
Financial payables to subsidiaries	40,030,685	40,030,685	100.0%	-		
Tax payables	847,867			237,138		
Other current liabilities	2,139,252			2,019,083		
Total current liabilities	**118,143,167**			**68,487,265**		
Total liabilities	**159,715,490**			**148,211,403**		
Total equity and liabilities	**411,325,273**			**407,039,434**		

(*) Related party transactions are analyzed in Note 28

NOTES TO THE SEPARATE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

Main activities

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

The Cairo Communication Group (the 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 dailies and magazines (weeklies and monthlies) in Italy and Spain through RCS MediaGroup (RCS), also active in the organization of major world sporting events, as a publisher of electronic content (Il Trovatore), and as a network operator (Cairo Network).

The registered office of Cairo Communication S.p.A. is in Corso Magenta 55, Milan. The administrative offices, the advertising sales units and Il Trovatore and Cairo Network are located in Via Rizzoli 8, Milan. The magazine publishing business is managed at the offices of Cairo Editore in Corso Magenta 55, Milan. The publishing business of La7 is managed mainly in Rome at the registered offices and the TV studios of La7 S.p.A. in Via della Pineta Sacchetti 229 and Via Novaro 32, respectively. RCS activities are mainly carried out in Via Rizzoli 8 and Via Solferino 28, Milan, and in Avenida San Luis 25, Madrid.

The income statement and the statement of financial position are presented in Euro, while the statement of cash flows, the statement of changes in equity and the amounts in these notes are presented in thousands of Euro.

As the Parent, Cairo Communication S.p.A. has also prepared the consolidated financial statements of the Cairo Communication Group at 31 December 2018.

Basis of preparation

Structure, form and content of the financial statements

The separate financial statements of Cairo Communication S.p.A. at 31 December 2018 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").

For completeness of information, the following annexes are supplied as an integral part of these Notes:

- Annex 1: List of investments in direct subsidiaries;
- Annexes 2 and 3: Summary figures of the draft financial statements of direct subsidiaries at 31 December 2018;
- Annexes 4 and 5: Summary figures of the most recently approved financial statements of direct subsidiaries.

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

Financial statements schedules

The **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. These transactions also fall under the definition of non-recurring events and transactions as per CONSOB Communication No. 6064293 of 28 July 2006.

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

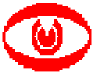
The **statement of comprehensive income** also reflects the "*changes arising from transactions with non-owners*"- separately showing the relevant tax effects, that is:

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

The 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 **statement of financial position** presents separately assets and liabilities divided in current and non-current, indicating, on two separate lines, "Assets intended 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 mainly 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 **statement of cash flows** has 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 equity** shows the changes 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 statement of comprehensive income.

For each significant item detailed in the above-mentioned schedules, reference is made to the following notes in which relevant information is provided, with details also on composition and variations on the previous year.

Furthermore, in order to comply with CONSOB Resolution No. 15519 of 27 July 2006 relating to financial statements schedules, specific additional statements of income and of financial position have been prepared, showing material balances or related party transactions separately for each item.

Revenue and cost recognition

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

- Revenue is recognized based on the likelihood of the Company to enjoy the economic benefits and in the extent to which the amount can be reliably determined. Revenue is stated net of any adjustments.
- Revenue is recognized at the moment the advertisement is broadcast or published or provision of services offered.

- Cost is recognized using the same criteria for revenue recognition and on an accruals basis.
- Interest income and expense are recognized on an accruals basis.
- Dividends are recognized only as from when the shareholders' right to the dividend payment has been established, i.e. at the date of the shareholders' meeting resolution, and only when resulting from a profit distribution following the acquisition of the investment; in the case, however, of a profit distribution prior to the acquisition of their relevant shares, such dividends are treated as a reduction in the cost of the relevant investment.
- Charge-backs of costs incurred on behalf of third parties are recognized as a reduction in the cost they relate to.
- Financial income and expense are recognized in the income statement on a maturity basis, as a function of time, using the effective interest method.

Cairo Communication adopted IFRS 15 - *Revenue from contracts with customers* as of 1 January 2018. As commented in the following section "Accounting standards, amendments and interpretations effective as of 1 January 2018 - IFRS 15 *Revenue from contracts with customers*", to which reference should be made, the effects of the application of the new standard are basically restricted to a different presentation of costs and revenue as a result of the valuation of the principal/agent role, with no impact on the result for the year and on equity at 1 January 2018.

In particular, as commented below, with the application of the new IFRS15, in relation to the advertising sub-concession agreements in place with the subsidiary company Cairo Pubblicità, the Company has been assigned the role of agent and therefore revenues are adjusted to express for these activities the only component realized by the Company.

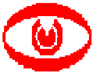
Tax

Tax for the year corresponds to the sum of current, deferred tax and prepaid tax.

Current tax is 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 tax liabilities are calculated using the rates in force at the balance sheet date.

Cairo Communication presented the tax consolidation scheme option pursuant to art. 117/129 of the TUIR (Consolidated Income Tax Act) starting from 2016, together with the subsidiaries Cairo Editore, Cairo Pubblicità, Diellesei in liquidation, Cairo Publishing, La7 and Cairo Network.



Cairo Communication S.p.A. acts as the tax parent and determines a single taxable base for the group of companies that participates 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, Cairo Communication S.p.A. recognizes receivables equal to the IRES payable. Conversely, for any such taxable loss reported by a subsidiary, Cairo Communication S.p.A. recognizes 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 tax is calculated on the basis of the tax rates that are expected will be in force at the moment of realization of the asset or settlement 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 after the reporting date 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 tax relates to the same taxation authority.

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 Company.

They are recognized at acquisition price or production cost, including directly associated expense 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%

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 life of assets is reviewed annually and if incremental maintenance or other work has been carried out which changes the remaining useful life of the investment, it is 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.

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 Company, and where the use of the asset will generate probable future benefits.

These are valued at their acquisition or production cost, including ancillary expense – to the extent to which they are considered to have finite life – and they are amortized to reflect their remaining useful economic lives.

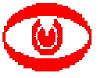
The amortization periods of intangible assets of various types are as follows:

Concessions, licenses, trademarks and similar rights	3 to 5 years
Software	3 to 5 years

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.

Impairment of assets

IAS 36 requires impairment testing of property, plant and equipment, intangible assets and investments in subsidiaries and associates, in the presence of indications that an impairment loss may have occurred. Investments in subsidiaries or associates and other intangible assets with indefinite useful life or assets not



available for use must be tested for impairment at least once a year, particularly for those investments where the investor's portion of equity is less than the carrying amount.

The recoverability of the recorded values is tested by comparing the carrying amount recorded in the financial statements with the higher amount between the net sale price, if an active market exists, or the value in use of the asset.

The value in use is defined by discounting the cash flows of the relating cash generating units. Specifically, for investments in subsidiaries and associates, the discounted estimated cash flow and the value expected from its disposal at the end of its useful life, is adjusted by the net financial position recognized at the end of the year, relating to the financial statements of the investee. The equity value thus determined is then compared with the investment's carrying amount. Cash generating units were identified consistently with the organizational and business structure of the Company and of its investees. They consist of homogeneous aggregations that generate independent cash flows, deriving from the continued utilization of the assets allocated to them.

Investments

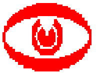
Subsidiaries and associates

Investments in subsidiaries and associates are measured at their acquisition or subscription cost and periodically subjected to impairment tests, to verify that no impairments have occurred. This test is carried out at least annually, i.e. whenever there is evidence of a likely impairment loss of the investments. The measurement method used is based on Discounted Cash Flow, applying the method described in the paragraph "Impairment of assets" or on fair value, calculated as the amount obtainable from the sale of the investment in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. If an impairment loss needs to be recognized, it will be allocated in the income statement in the year when it is recognized.

Should the company's share of losses in an investment exceed the carrying amount of the investment, and the company is obliged to reflect those losses, the value of the investment is written off and the share of any such losses is shown as a provision in liabilities. Whenever an impairment loss is reduced or ceases to exist, the loss is reversed up to the original carrying amount through profit and loss.

<u>Financial assets</u>

Receivables, with the exception of trade receivables, and other financial assets are initially recognized at fair value, in addition to, only for financial assets measured at fair value through profit or loss, any ancillary purchase expense. Trade receivables on initial recognition are measured at the price established in the



transaction. Management determines upon initial recognition how financial assets are to be classified, in accordance with IFRS 9 criteria and as required by IFRS 7.

After initial recognition, financial assets are measured in accordance with their classification within one of the following categories:

- at amortized cost: receivables and other financial assets measured at amortized cost, recognizing in the income statement the interest calculated at the effective interest rate, i.e. applying a rate that reduces to zero the sum of the present values of the net cash flows generated by the financial instrument. Losses are recognized in the income statement when impairments manifest themselves or when loans and receivables are eliminated from the accounts. Receivables are impaired and recognized at their estimated realizable value (fair value) by means of the allowance for impairment directly deducted from their carrying amount.

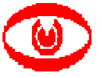
  Receivables are impaired when there is objective evidence that the receivable is unlikely to be collected and also on the basis of past experience and statistics (expected losses).

  If, in subsequent periods, the reasons for the previous impairment losses no longer apply, the value of the asset is restored up to the value that would have derived from applying the amortization cost, if the impairment loss had not been recognized.

  The Company mainly reports in this category assets due within twelve months, which are therefore recognized at nominal amount as an approximation of amortized cost. If the terms of payment are longer than normal market terms and the loan or receivable does not earn interest, the amount booked contains an implicit time value component and so must be discounted by recognizing the relating discount in profit or loss.

  Loans and receivables expressed in foreign currencies are converted at closing rates, and the gains or losses from their translation are taken to profit or loss.

- at fair value recognized in other comprehensive income (FVOCI): other non-current equity instruments (ex *available for sale*) are initially recognized at cost (fair value of the initial consideration given in exchange) increased by any transaction costs directly attributable to them. As the Group does not trade equities, it has adopted the option of presenting subsequent changes in the fair value of the investment among other comprehensive income. Accordingly, only dividends are recognized in the income statement (unless they clearly represent a refund of the investment). Changes in fair value and any gains or losses on disposal of the investment are recorded in the statement of comprehensive income and are never recorded in the statement of income. As this option can be exercised for each investment, any exceptions at the initial recognition stage will be shown in the comment on this item.



All the investments in equity instruments must be measured at fair value. In the case of securities traded on active markets, fair value is determined with reference to the closing price on the last trading day of the reporting period.

In the case of assets for which there is no active market, fair value is determined on the basis of the price used in recent transactions between independent parties in instruments that are substantially the same, or using other valuation techniques, such as income valuations or based on discounted cash flow analysis.

However, in a few circumstances only, cost may represent an adequate estimate of fair value if, for example, the latest information available to measure fair value is insufficient, or if there is a wide range of possible fair value measurements. Cost is never the best estimate of fair value for investments in listed equity instruments.

- at fair value recognized in profit/loss for the year (FVTPL): financial assets measured upon initial recognition at fair value through profit or loss, the measurement of which is determined based on the market value at the end of the reporting date; in the case of unquoted instruments, this amount is determined by means of generally accepted financial valuation techniques based on market information. Fair value gains and losses on assets in this category are recognized in profit or loss. At 31 December 2018, Cairo Communication did not hold any financial assets, which are initially measured at fair value.

Cash and cash equivalents

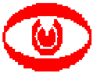
This item comprises cash, bank current accounts and deposits on demand, and other short-term highly liquid financial investments which are easily convertible to cash and not subject to the risk of significant value changes.

Cash and cash equivalents are recognized at their nominal amount.

Equity

Treasury shares

Treasury shares are recognized as a reduction in equity. The effects of any subsequent transactions are also recognized directly 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.

Post-employment benefits

For Italian companies with at least 50 employees, post-employment benefits (TFR) 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 Company has less than 50 employees. The discounting process, based on demographic and financial assumptions, is performed by independent actuaries.

In accordance with IAS 19 - *Employee Benefits*, the recognition of expense related to work performed and net financial expense are recognized in the income statement, while actuarial gains and losses arising from the re-measurement of liabilities and assets are recognized in the statement of comprehensive income.

Provisions for risks and charges

Provisions for risks and charges are recognized when the Company 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 based on information currently available to the Directors of the costs required to fulfill the obligation at the reporting date, and are discounted when the effect is significant.

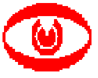
Payables and other liabilities

The item comprises trade payables, loans and borrowings, bank loans and overdrafts and other liabilities.

Financial payables and liabilities are initially recognized at fair value, which basically matches the amounts cashed in net of transaction costs. Management determines upon initial recognition how financial liabilities are to be classified, in accordance with IFRS 9 criteria and as required by IFRS 7.

Subsequent to initial recognition, financial liabilities are measured in relation to their classification into one of the categories defined by IFRS 9. Specifically, Cairo Communication has classified its payables and other liabilities in the amortized cost category, except for derivative instruments, applying a rate that reduces to zero the sum of the present values of the net cash flows generated by the financial instrument. Instruments due within twelve months are measured at their nominal amount as an approximation of amortized cost.

If the loan agreements provide covenants, which are not fulfilled, and this situation is not remedied before the end of the year, the long-term portion of that loan is classified as current debt.



Payables denominated in a foreign currency are aligned at the exchange rate at year end, and the gains or losses deriving from the adjustment are recognized in the income statement.

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 may vary from these estimates. Estimates relate mainly to investment measurement, provisions for risks relating to receivables, depreciation, amortization, impairment of assets, taxation, provisions for risks and charges, and contingent liabilities.

Estimates and assumptions are reviewed regularly and the effects of each variation therein are recognized in 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, 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 investments, the allowance for impairment, deferred tax assets 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.

Determination of the recoverable value of investments

The Company revises periodically, at least annually, the carrying amount of investments even in the absence of impairment indications, to verify that they are not recorded at a higher amount than their recoverable value. Particular significance is attached to the impairment test for the investment in RCS, whose carrying amount of Euro 304.9 million accounts for approximately 93% of the total carrying amount of the investments held.

The recoverable value of the investments defined by each impairment test is sensitive to changes in the assumptions used, e.g. the rate of growth of revenue, changes in the forecast EBITDA and, amount the valuation parameters, the discount rate (WACC) and the consistency of financial projections beyond the

period of the plan (g equal to zero, in nominal terms). In turn, the WACC is sensitive to changes in its own components, including the risk free that summarizes country risk.

Allowance for impairment

The allowance for impairment 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 Company, based upon past experience for similar receivable, current and past due dates, losses and receipts, forecast models of expected losses, arising from the careful monitoring of receivables management and from projections on market and economic conditions.

Prepaid tax assets

Prepaid tax assets are recorded 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 Company's most recent plans.

Provisions for risks and charges

The provisions for risks 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 tax advisers on the probable charge that can be reasonably expected to fulfill the obligation.

Risk management

The main fiscal, legal and financial risks Cairo Communication S.p.A. is exposed to, as well as the policies put in place by Management for their management, are explained in Note 27 and Note 29. Reference is made to the Directors' Report regarding operational and business risks.

Accounting standards, amendments and interpretations effective as of 1 January 2018

IFRS 15 - *Revenue from contracts with customers*

The standard, published by the IASB in May 2014, amended in April 2016 and endorsed by the European Commission in September 2016, introduces a general model to determine whether, when and to what extent revenue is recognized. Specifically, the standard establishes a new model for the recognition of revenue, applied to all contracts stipulated with customers except for those falling within the application of other IAS/IFRS standards as leases, insurance contracts and financial instruments.

The key steps in the accounting of revenue based on this new model are:

- identification of the contract with the customer;
- identification of the performance obligations envisaged in the contract;
- pricing;
- price allocation based on the performance obligations envisaged in the contract;
- the criteria for the recognition of revenue when the entity meets each performance obligation.

The standard supersedes the recognition criteria set out in IAS 18 - *Revenue*, IAS 11 - *Construction contracts*, 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*.

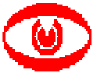
The Company adopted *IFRS 15 Revenue from contracts with customers* as of 1 January 2018, using the cumulative effect approach to avoid restating periods shown in the comparative information and to recognize the effects of the first-time application of the new standard in initial equity for the financial year of first-time application.

The effects of the application of the new standard are basically restricted to a different presentation of costs and revenue as a result of the valuation of the principal/agent role, with no impact on the result for the period and on equity at 1 January 2018.

This different presentation relates to advertising sub-concession activities. With the application of the new IFRS, in connection to the advertising sub-concession contracts in place with the subsidiary Cairo Pubblicità, the Company was recognized the role of agent; revenue, therefore, was netted to express for these activities only the component realized by the Company, with a reduction in revenue of Euro 105.4 million at 31 December 2018 and a corresponding decrease in cost of services.

IFRS 9 – *Financial instruments*

IFRS 9, published by the IASB in July 2014 and approved by the European Commission in November 2016, supersedes IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for the classification and measurement of financial instruments, including a new model for calculating impairment of financial assets that also covers expected losses, and new general requirements for hedge accounting. Additionally, it includes provisions for the recognition and derecognition of financial instruments in line with the current IAS 39 and new indications on the rescheduling of loan agreements. With the exception of hedge accounting, retrospective application of the standard is required, while it is not compulsory to provide comparative information. Elements that have already been derecognized at the date of first-time application are excluded from retrospective application. As regards hedge accounting, the



standard is generally applied prospectively, with a few limited exceptions. In this context, however, an entity may continue applying the provisions of IAS 39.

IFRS 9 classifies financial assets into three main categories: amortized cost, fair value recognized through profit/loss (FVTPL) for the year, fair value recognized in other components of comprehensive income (FVOCI). The categories set out in IAS 39, i.e. assets held to maturity, loans and receivables and available-for-sale assets, are derecognized.

The Company adopted IFRS 9 *Financial Instruments* as of 1 January 2018, making use of the exemption that allows an entity not to recalculate prior-years' comparative information regarding changes in classification and measurement, including impairment losses. Differences in the carrying amounts of financial assets and liabilities arising from the adoption of IFRS 9 are recognized in retained earnings as of 1 January 2018. Additionally, with regard to hedge accounting, the Company intends to continue applying the provisions of IAS 39. The effect on initial equity produced a reduction of Euro 0.2 million (net of the tax effect) as a result of a reduction in trade and financial receivables of Euro 0.3 million, with no significant changes in the income statement figures for 2018. Specifically, the adjustment reducing retained earnings refers to the recognition of additional, and possible, losses due to impairment of financial assets arising from the application of the *expected credit loss* model introduced by IFRS 9, superseding the *incurred credit loss* model under IAS 39. Based on this new model, an analysis was also performed on financial assets not past due, for which there is no evidence of actual impairment. For this purpose, the relevant balances were subdivided according to common credit characteristics such as: rating class, segment and geographic area to highlight any possible signs of future default. On the basis of these assessments, the relevant impairment percentages for each rating class were identified referring to trade receivables, other receivables, financial receivables and cash. These percentages represent the point of view of the Company regarding expected losses over the next 12 months.

Amendment to IFRS 4: *Applying IFRS 9 Financial instruments with IFRS 4 Insurance Contracts*

In September 2016, the IASB published the document "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts". The amendment, endorsed by the European Commission in November 2017, applies as of 1 January 2018. The amendments to IFRS 4 aim to remedy the temporary accounting effects of the gap between the entry into force of IFRS 9 and the entry into force of the new accounting standard on insurance contracts that supersedes IFRS 4 (IFRS 17).

The amendments to IFRS 4 authorize entities whose predominant activity is issuing insurance contracts to defer the date of application of IFRS 9 to 1 January 2021 and continue to use IAS 39 Financial Reporting Standard: recognition and measurement. The amendments to IFRS 4 also allow entities which issue insurance contracts to remove, from the profit (loss) for the period, reclassifying to equity (OCI), a part of

the additional accounting mismatches and temporary volatility which may appear when they apply IFRS 9 before the implementation of IFRS 17.

Improvements to IFRS: *2014-2016 Cycle*

On 8 December 2016, the IASB published the document *"Improvements to IFRS: 2014-2016 Cycle"* approved by the European Commission in February 2018, the main amendments concern:

- IFRS 1: *First-time Adoption of International Financial Reporting Standards* - The amendments delete a number of exemptions provided by IFRS 1, as they have not served their intended purpose.

- IAS 28: *Investments in Associates and Joint Ventures* - The amendment clarifies that the election to measure at fair value through profit or loss (rather than at equity) an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. Entities that are not investment entities may measure investments in associates and joint ventures that are investment entities using the equity method, maintaining the fair value measurements made by the latter with regard to their investments.

Amendment to IFRS 2: *Classification and Measurement of Share-based Payment Transactions*

In June 2016, the IASB published the amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*, endorsed by the European Commission in February 2018, which aim to clarify the accounting of certain types of share-based payment transactions.

Amendment to IAS 40 Investment Property: *Transfer of Investment Property*

In December 2016, the IASB published "Amendment to IAS 40 Investment Property: *Transfers of Investment Property",* which clarifies the provisions relating to changes in the use of an asset that lead to qualifying an asset that does not constitute an investment property as such or vice versa. Based on these amendments, an entity must reclassify an asset to, or from, investment property solely when the asset meets or ceases to meet the definition of "investment property" and there has been a clear change in use of the asset. This change must be tied to a specific event that has occurred and, thus, should not be limited to a change in Management's intentions for the use of the asset. The new provisions had no impact on the Annual Report at 31 December 2018.

<u>IFRIC Interpretation 22: *Foreign Currency Transactions and Advance Consideration*</u>

In December 2016, the IASB published the document "*IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration*" to provide indications on how an entity shall determine the date of a transaction, and consequently the exchange rate to be used when foreign currency transactions take place, in which payment is made or received in advance.

Accounting standards, amendments and interpretations endorsed by the EU and applicable from financial periods beginning on 1 January 2019

<u>IFRS 16 – *Leases*</u>

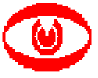
In January 2016, the IASB published IFRS 16 *Leases*. The new standard, endorsed by the European Commission in October 2017, establishes a new single model of recognition and measurement of leases for the lessee, without making any distinction between operating leases and finance leases. Specifically, it provides for the recognition of the right of use of the underlying asset with the assets in the statement of financial position with a balancing entry in financial liabilities. The standard provides the possibility of not recognizing contracts as leases that involve low-value assets (i.e. leases relating to assets with a value of less than USD 5 thousand) and leases with a term equal to or less than 12 months. Conversely, the standard introduces no material changes for the lessor. The standard introduces a criterion based on the control of the use of an asset to distinguish leases from service contracts, identifying the following distinguishing factors:

- identification of the asset granted for use (i.e. without a right of replacement thereof by the lessor);
- the right to obtain substantially all economic benefits deriving from use of the asset;
- the right to establish how and why the asset is to be used.

The standard applies as of 1 January 2019, but early application is allowed. First-time application allows use of the full retrospective method (with restatement of comparative information) or the modified retrospective method (with the cumulative effect of the adoption of IFRS 16 recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, without restatement of comparative information).

The Company will apply the standard as of 1 January 2019.

The Company has completed its review of the contracts potentially affected by this standard. There are approximately 15 such contracts, mainly signed in Italy and attributable to approximately 6 different parties, including the subsidiary RCS MediaGroup S.p.A.. Of these contracts, approximately 3 can be classified as



short term or low value leases; the option for these contracts was not to apply the recognition and measurement provisions under IFRS 16.
Short-term leases refer mainly to the classes of assets: motor vehicles and office equipment.

For such contracts, the introduction of IFRS 16 will not imply the recognition of the financial liability of the lease and the relating right of use, but lease payments will be recognized in the income statement on a straight-line basis for the duration of the respective contracts.

The remaining contracts relate mainly to the rental of real estate and company cars used by employees. Lastly, a few minor contracts (in terms of amounts, duration and number) refer to operating leases of plant and machinery, furniture and office machinery.

In performing its analysis, the Company has identified the components of the contracts or the contracts themselves, the lease of which can be traced back to a service contract or a license concession, and has applied IFRS 15 to these cases, excluding them from the scope of IFRS 16.
No sale and leaseback transactions were identified.
The Company, as lessee, will adopt the abovementioned modified retrospective method. Specifically, the Company will record, with regard to the lease contracts previously classified as operating:

- a financial liability, equal to the present value of the remaining future payments at the transition date, discounted using for each contract the *incremental borrowing rate* applicable at the transition date;
- a right of use equal to the amount of the financial liability at the transition date, net of any accrued income and prepaid expenses relating to the lease and recorded in the balance sheet at the balance sheet date of these financial statements.

The financial liability emerging from the application of the *modified retrospective* method was discounted using an IBR *(Incremental Borrowing Rate*) consistent with the maturity of the underlying contracts. The different IBRs range from slightly less than 1% to approximately 2.5%.
In applying the lease accounting method, Management assessed the definition of the lease term or the duration of the contracts, identifying *the non-cancellable* period of the lease and integrating it to take account of any extension options, the exercise of which is reasonably certain.

The estimated financial liability resulting from the application of IFRS 16, calculated as explained above, amounted to approximately Euro 4.9 million.

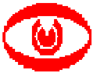
The table below shows the estimated impacts of the adoption of IFRS 16 at the transition date:

Description (€ millions)	**Impacts at transition date 1 January 2019**
ASSETS	
Usage rights property	4.7
Usage rights motor vehicles	0.1
Usage rights other assets	0.1
Total non-current assets	**4.9**
TOTAL ASSETS	**4.9**
EQUITY AND LIABILITIES	
Retained earnings	
Total equity attributable to the owners of the parent	
Financial liabilities for non-current leases	4.4
Total non-current liabilities	
Financial liabilities for current leases	0.5
Total current liabilities	**4.9**
TOTAL EQUITY AND LIABILITIES	**4.9**

It should be noted that the estimated effects of the adoption of IFRS 16 as commented above, may be subject to change up to the presentation of the Company's first financial statements, which include the date of first-time application, also in light of guidelines that may arise at a later time on certain situations that are more exposed to the interpretations of the standard, as well as for the implementation of the IT solutions identified in support of the business processes involved.

As required by ESMA's Public Statement of 26 October 2018, a reconciliation is given below of operating lease commitments, the amount of which is shown in Note 27 of these financial statements, under IAS 17, and the emerging liability under IFRS 16.

Description (€ millions)	**Impacts at transition date 1 January 2019**
ASSETS	
Commitments for operating leases at 31 December 2018	2.2
Commitments for lease payments - renewal options	3.0
Gross value of lease liabilities at 1 January 2019 - before application of IFRS 16	**5.2**
Discounting	(0.3)
Lease liabilities at 1 January 2019 - before application of IFRS 16	**4.9**
Present value of financial leases at 31 December 2018 ex IAS 17	
Lease liabilities at 1 January 2019	**4.9**



Amendment to IFRS 9 – *Financial instruments: Prepayment features with negative compensation*

In October 2017, the IASB published the amendments to IFRS 9 "Prepayment features with negative compensation" endorsed by the European Commission in March 2018. To clarify the classification of certain financial assets that can be repaid early on the application of IFRS 9, these amendments allow the measurement at amortized cost or at fair value through other comprehensive income (OCI) of financial assets with prepayment features through "negative compensation". The amendments apply to financial periods beginning on 1 January 2019.

IFRIC 23 - *Uncertainty over Income Tax Treatments*

The interpretation IFRIC 23 - *Uncertainty over income tax treatments*, published by the IASB in June 2017, was endorsed in October 2018.

This interpretation clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty over income tax treatments.

IFRIC 23 applies to uncertainties over income tax. Therefore, any uncertainties over other tax and duties (e.g. VAT, excise duties, etc.) do not fall within the scope of application.

Uncertainties over the calculation of income tax should not be reflected in the balance sheet in a provision for risks, but should be included in the calculation of assets/liabilities from current/deferred tax.

Income tax-related assets (e.g. payment of a tax demand for an ongoing tax dispute) will be kept in the financial statements if it is likely that the taxation authority will accept the tax treatment adopted by the entity. Entities need not demonstrate that the recovery of the asset is virtually certain.

The new interpretation applies as of 1 January 2019, but early application is allowed.

Amendment to IAS 28 *Investments in associates: Long-term Interests in Associates and Joint Ventures*

The amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*, published by the IASB in October 2017, aim to clarify that IFRS 9 also applies to long-term interests in an associate or joint venture essentially forming part of the net investment in the associate or joint venture.

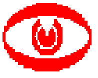
The IASB also published an example that shows how the provisions of IFRS 9 and IAS 28 apply to long-term interests in an associate or joint venture.

The amendments apply to financial periods beginning on 1 January 2019.

Accounting standards, amendments and interpretations not yet endorsed by the EU

Improvements to IFRS: *2015-2017 Cycle*

In December 2017, the IASB published the document *"Improvements to IFRS:* 2015-2017 Cycle", the main amendments regard:



- IFRS 3 - *Business Combination and IFRS 11 – Joint Arrangements* - The amendments to IFRS 3 clarify that when an entity obtains control of a joint operation, it must recalculate the fair value of the interest previously held in this joint operation. The amendments to IFRS 11 clarify that when an entity obtains joint control of a joint operation, the entity does not recalculate the fair value of the interest previously held in such joint operation.

- IAS 12 - *Income tax consequences of payments on financial instruments classified as equity* - The proposed amendments clarify how an entity must recognize any tax effects deriving from the distribution of dividends.

- IAS 23 – *Borrowing costs eligible for capitalization* - The amendments clarify that where funds borrowed specifically for the acquisition and/or construction of an asset remain in place even after the asset itself is ready for use or sale, such funds cease to be considered specific and are included in the entity's general funding in order to determine the capitalization rate of the funds borrowed.

The amendments apply to financial periods beginning on 1 January 2019. Early application is allowed.

Amendment to IAS 19 - *Plan Amendment, Curtailment or Settlement*

In February 2018, the IASB published the amendments to IAS 19 *"Plan Amendment, Curtailment or Settlement"* to clarify how current service cost and net interest are determined when a change occurs in the defined benefit plan.

The amendments apply to financial periods beginning on 1 January 2019. Early application is allowed.

Amendment to IFRS 3 - Definition of a Business

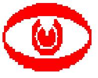
In October 2018, the IASB published *Definition of a Business (Amendments to IFRS 3)* with the aim of helping to determine whether a transaction is an acquisition of a business or group of businesses that does not meet the business definition of IFRS 3.

The amendments will apply to acquisitions after 1 January 2020. Early application is allowed.

Amendment to IAS 1 and IAS 8 - Definition of Material

In October 2018, the IASB published the amendment *Definition of Material (Amendments to IAS 1 and IAS 8)* which aims to clarify the definition of "material" in order to assist entities in assessing the significance of information to include in financial statements.

The amendments will apply as of 1 January 2020. However, early application is allowed.



IFRS 17: *Insurance contracts*

In May 2017, the IASB published IFRS 17 - Insurance Contracts, which supersedes IFRS 4, issued in 2004. IFRS 17 applies to all types of insurance contracts, regardless of the type of entity that issues them, as well as to certain guarantees and financial instruments with discretionary participation features.

The overall objective of IFRS 17 is to provide a more useful and consistent accounting model for insurance contracts among entities issuing insurance contracts. Unlike the provisions of IFRS 4, which are based mainly on maintaining previous accounting policies, IFRS 17 provides a comprehensive model for insurance contracts covering all relevant accounting aspects.

The standard is effective as of 1 January 2021, but early application is allowed.

IFRS 14: *Regulatory Deferral Accounts*

IFRS 14, issued by the IASB in January 2014, allows an entity, whose activities are subject to rate regulation, to continue applying, on first-time adoption of the IFRS, the previous accounting standards adopted for the amounts relating to rate regulation. IFRS 14 came into force on 1 January 2016, but the European Commission has suspended the endorsement process, pending the new standard on "rate-regulated activities". The standard does not apply to the Group.

Amendment to IFRS 10 *Consolidated financial statements and IAS 28 Investments in associates and joint ventures.*

The changes arising from the amendment issued by the IASB in September 2014 address the inconsistency between IFRS 10 and IAS 28 over the loss of control of a subsidiary that is sold or transferred to an associate or a joint venture. The amendments clarify that any gain or loss on the sale or from the contribution of assets that constitute a business, as set out in IFRS 3, between an investor and an associate or joint venture, must be recognized in full. Any gain or loss on the sale or from the contribution of assets that do not constitute a business is recognized only to the extent of the portion held by third-party investors in the associate or joint venture. With a further adjustment in December 2015, the IASB cancelled the previous date of first-time application set for 1 January 2016, deciding to determine it at a later date.

NOTES TO THE INCOME STATEMENT

As of 1 January 2018, the Company adopted IFRS 15 - *Revenue from contracts with customers*, which resulted in a different presentation of costs and revenue, as a result of the valuation of the principal/agent role, with no impact on the result for the period or on equity at 1 January 2018. This new standard was adopted using the cumulative effect approach and, therefore, not applying its provisions to the period shown for comparative purposes. As a result, the 2018 income statement cannot be directly comparable with the 2017 income statement.

1. Revenue

Net operating revenue amounted to Euro 6,910 thousand (Euro 105,522 thousand at 31 December 2017). Its composition, versus the prior year, is shown below:

Net revenue (€ thousands)	31/12/2018	31/12/2017
Print media advertising space sales	29	32
Cairo Advertising sub-concession	3,279	101,083
Group services	3,502	3,502
Other revenue from associates	100	100
Total	**6,910**	**105,522**

Revenue is generated almost exclusively in Italy and an analysis by geographical area is pointless.

As already commented, with the application of the new IFRS 15, in connection to the advertising sub-concession contracts in place with the subsidiary Cairo Pubblicità, the Company was recognized the role of agent, giving therefore a different accounting presentation of revenue, to express for these assets only the component earned by the Company. In 2018, the application of IFRS 15 resulted in: (i) a decrease in net revenue of Euro 105.4 million and (ii) a corresponding decrease in cost of services, in particular publishing fees.
On a like-for-like basis, excluding the effects of the adoption of the new accounting standard from the comparison with the 2017 figures, revenue would instead increase by Euro 6.4 million, due in particular to the positive trend in TV advertising sales.

In 2018, Cairo Communication continued to operate on the TV advertising sales market (La7, La7d and theme channels Cartoon Network, Boomerang, and CNN) and on the Internet through its subsidiary Cairo Pubblicità, which operates on a sub-concession basis, invoicing advertising spaces directly to its clients and returning to the sub-grantor Cairo Communication a share of revenue generated by resources managed on a sub-concession basis. Versus the prior year, as explained earlier, in 2018 revenue from sub-concession fees charged to the subsidiary Cairo Pubblicità S.p.A. are shown net of the fees paid back to the publishers who own the media.

Apart from advertising services, Cairo Communication also provides services in administration, auditing, financial analysis, debt management and collection and marketing to other Group companies, and the use of serviced spaces. Such services are subject to contracts which are revised annually. Sales to Group companies deriving from these activities during the year were as follows:

Group services (€ thousands)	31/12/2018	31/12/2017
Cairo Pubblicità S.p.A.	3,000	3,000
Il Trovatore S.r.l.	22	22
Cairo Editore S.p.A.	480	480
Total	**3,502**	**3,502**

Other revenue from associates (Euro 100 thousand) relates to administrative services provided to Torino FC S.p.A., a related party in that it is ultimately controlled by U.T. Communications S.p.A.

2. Other revenue and income

Other revenue and income amounted to Euro 706 thousand (Euro 1,154 thousand at 31 December 2017). The item refers mainly to the charging of costs of Euro 623 thousand to other Group companies, to contingent assets of Euro 83 thousand, and the difference to other items of revenue other than operating revenue.

3. Services, use of third-party assets and other operating costs

Cost of services amounted to Euro 3,499 thousand (Euro 102,690 thousand at 31 December 2017). The item is broken down as follows:

Services (€ thousands)	31/12/2018	31/12/2017
Publishers' fees	-	702
TV publishing fees	-	97,950
Web publishing fees	-	120
Consultancies and collaborations	153	632
Cairo Communication Board of Directors' fees	1,068	1,014
Cairo Communication Board of Statutory Auditors' fees	104	104
Other administration and general expenses	2,174	2,168
Total services	**3,499**	**102,690**

As explained in Note 1, in 2018 the amounts returned to publishers, totaling Euro 105,374 thousand, were presented, as a result of the first-time application of IFRS 15, as a decrease in the respective advertising revenue from sub-concessions.

"Use of third-party assets" amounted to Euro 750 thousand (Euro 749 thousand at 31 December 2017) and refers mainly to lease payments for property and office equipment (Euro 653 thousand of which from RCS MediaGroup for the offices in Milan, Rome and Bologna).

Other operating costs amounted to Euro 83 thousand (Euro 147 thousand for the year ended 31 December 2017) and refer to prior-year expense of Euro 59 thousand and other expense of Euro 24 thousand.

4. Personnel expense

This item can be analyzed as follows:

Personnel expense (€ thousands)	31/12/2018	31/12/2017
Wages and salaries	2,257	2,252
Social security expense	835	810
Post-employment benefits	81	94
Total	**3,173**	**3,156**

5. Amortization, depreciation, provisions and impairment losses

These can be analyzed as follows:

Amortization, depreciation, provisions and impairment losses (€ thousands)	31/12/2018	31/12/2017
Amortization of intangible assets	93	96
Depreciation of property, plant and equipment	86	111
Allowance for impairment	29	55
Total amortization, depreciation, provisions and impairment losses	**208**	**262**

Allocation for the year to the allowance for impairment is attributable entirely to the first-time adoption of IFRS 9.

6. Net financial income (expense)

Net financial expense amounted to Euro 482 thousand (Euro 477 thousand at 31 December 2017) and is broken down as follows:

Net financial income (expense) (€ thousands)	31/12/2018	31/12/2017
Interest income on bank accounts	1	1
Total financial income	**1**	**1**
Interest and other financial expense	(483)	(478)
Total financial expense	**(483)**	**(478)**
Net financial income (expense)	**(482)**	**(477)**

7. Income/ (expense) on investments

This item, amounting to Euro 7,101 thousand (Euro 8,283 thousand in 2017) mainly includes:

- dividends in the year from the subsidiary Cairo Editore, amounting to Euro 7,129 thousand (Euro 8,489 thousand in 2017);

8. Tax

Tax for the year amounted to a negative Euro 63 thousand (a positive Euro 171 thousand at 31 December 2017), and can be analyzed as follows:

Tax (€ thousands)	31/12/2018	31/12/2017
Current tax		
IRES	(25)	(82)
IRAP	91	47
Deferred tax income and expense	(3)	206
Deferred tax liabilities	-	-
Total income tax	**63**	**171**

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

	31/12/2018	31/12/2017
Profit (loss) before tax	**6,521**	**7,477**
Theoretical income tax expense (24%)	**1,565**	**1,794**
Tax effect of dividends received	(1,625)	(2,218)
Tax effect of other permanent differences	32	548
IRAP	91	47
Current and deferred income tax	**63**	**171**

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 profit before tax, and this would generate a distorting effect between one financial period and the other.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

9. Property, plant and equipment

At 31 December 2018, this item amounted to Euro 266 thousand, decreasing by Euro 67 thousand versus 31 December 2017. Movements can be broken down as follows:

Description	Historical cost	Depreciation	Carrying amount at 31/12/2017	Net change	Carrying amount at 31/12/2018
Motor vehicles	627	(518)	109	(32)	77
Furniture and fittings	391	(263)	128	(6)	122
Communication equipment	80	(78)	2	(1)	1
Electronic office equipment	1,394	(1,314)	80	(25)	55
General equipment	127	(126)	1	(1)	-
Mobile phones	52	(39)	13	(2)	11
Leasehold improvements	278	(278)	-	-	-
Total	**2,949**	**(2,616)**	**333**	**(67)**	**266**

The net change in the year is broken down as follows:

Description	Increases (decreases)	Depreciation	Net change
Motor vehicles	-	(32)	(32)
Furniture and fittings	-	(6)	(6)
Communication equipment	-	(1)	(1)
Electronic office equipment	16	(41)	(25)
General equipment	-	(1)	(1)
Mobile phones	3	(5)	(2)
Leasehold improvements	-		-
Net amounts	**19**	**(86)**	**(67)**

Property, plant and equipment have not been subject to revaluation.

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10. Intangible assets

Intangible assets amounted to Euro 182 thousand at 31 December 2018, decreasing by Euro 29 thousand versus 31 December 2017. Their movements in the year are shown below:

Description	Historical cost	Accumulated depreciation	Carrying amount at 31/12/2017	Net change	Carrying amount at 31/12/2018
Software, licenses and trademarks	2,954	(2,812)	142	(53)	89
Total concessions, licenses and trademarks	**2,954**	**(2,812)**	**142**	**(53)**	**89**
Website design costs	169	(169)	-	-	**-**
Assets under development	69	-	69	24	**93**
Total other	**238**	**(169)**	**69**	**24**	**93**
Total intangible assets	**3,192**	**(2,981)**	**211**	**(29)**	**182**

The net change in the year is broken down as follows:

Description	Increases	Depreciation	Net change
Software, licenses and trademarks	40	(93)	(53)
Total concessions, licenses and trademarks	**40**	**(93)**	**(53)**
Website design costs	-	-	-
Assets under development	24	-	24
Total other	**24**	**-**	**24**
Total intangible assets	**64**	**(93)**	**(29)**

11. Investments

- Investments in subsidiaries

At 31 December 2018, investments amounted to Euro 328,978 thousand (Euro 328,926 thousand at 31 December 2017):

Description (€ thousands)	**Carrying amount at 31/12/2017**	**Impairment losses**	**Increases (decreases)**	**Carrying amount at 31/12/2018**
RCS MediaGroup S.p.A.	304,916	**-**	-	**304,916**
Diellesei S.r.l. in liquidation	-	-	-	**-**
Cairo Network S.r.l.	5,520	**-**	**-**	**5,520**
La7 S.p.A.	4,039	-	-	**4,039**
Il Trovatore S.r.l.	357	-	-	**357**
Cairo Editore S.p.A.	6,273	-	-	**6,273**
Cairo Publishing S.r.l.	1,481	-	52	**1,533**
Cairo Pubblicità S.p.A.	6,340	-	-	**6,340**
Total investments	**328,926**	**-**	**52**	**328,978**

In 2018:

- Cairo Communication S.p.A. paid to partly cover losses accumulated by Cairo Publishing S.r.l. at 31 December 2017;
- The liquidation of Diellesei continued and is expected to be completed by the end of the first half of 2019.

Annex 2 shows the information required by paragraph V of art. 2427 of the Italian Civil Code. Information at 31 December 2018 is drawn from the draft financial statements approved by the Board of Directors of each direct subsidiary.

For more detailed information, a comparison between carrying amount and the amount derived from the application of the equity method is provided for each investment in the following table.

Description (€ millions)	**Equity 31/12/2018 (*)**	**Ownership**	**Equity method (*) a)**	**Carrying amount (b)**	**Difference (a-b)**
RCS MediaGroup S.p.A.	262.1	59.69%	423.6	304.9	**118.7**
Diellesei S.r.l. in liquidation	0.2	60%	0.2	-	**0.2**
Cairo Network S.r.l.	3.6	100%	3.6	5.5	**(1.9)**
La7 S.p.A.	85.1	100%	77.0	4.0	**73.0**
Il Trovatore S.r.l.	0.6	80%	0.7	0.4	**0.3**
Cairo Editore S.p.A.	7.3	99.95%	22.9	6.3	**16.6**
Cairo Publishing S.r.l.	-	100%	-	1.5	**(1.6)**
Cairo Pubblicità S.p.A.	2.0	100%	4.4	6.3	**(1.9)**

(*) Amounts determined under IAS/IFRS

Particular significance is attached to the impairment test relating to the investment in RCS MediaGroup S.p.A..

The purchase cost of the investment had been Euro 304.9 million in 2016, relating to no. 311.5 million RCS shares, corresponding to 59.69% of RCS's share capital.

Cairo Communication determined, for impairment purposes, the recoverable value (defined in accordance with IAS 36 as the higher of the value in use and the fair value less costs to sell) of the "RCS investment" cash generating unit at the reference date of 31 December 2018.

Specifically, the recoverable value of the "RCS investment" cash generating unit was calculated, with support by an independent expert, in terms of the value in use based on the 2019 budget approved by the Board of Directors of RCS. Cash flows as inferred from the 2019 budget, in compliance with the provisions of IAS 36, were projected for valuation purposes to be constant in nominal terms (growth rate g = 0). These flows were, therefore, discounted on the basis of a rate defined as the weighted average cost of capital (WACC) (equal to 7.85%). The 2019 budget was also matched against and found to be consistent with the RCS 2019-2021 plan. No evidence of impairment arose from the analysis performed. The value obtained underwent a sensitivity analysis, by varying the discount rate (WACC) and the growth rate of the final value (g), with discrete changes of 50 basis points, and reducing the expected EBITDA values in the year and included in the final value of -15%. None of the scenarios envisaged indicate impairment losses for the CGU/RCS Investment at 31 December 2018.

The carrying amount of the investments in Cairo Publishing S.r.l., Cairo Pubblicità S.p.A. and Cairo Network S.r.l. is higher than the amount obtained using the equity method, respectively by Euro 1.6 million, Euro 1.9 million and Euro 1.9 million. The carrying amounts of the investments have, therefore, also undergone impairment tests to measure their recoverable value in terms of value in use, based on the estimated cash flows from the results of the investees as inferred from the most recent budgets and business plans (three-year), forecast for valuation purposes to be constant in nominal terms (growth rate g = 0) and discounted on the basis of a 7.81% WACC. No evidence of impairment arose from the analysis performed.

The Company prepares Group consolidated financial statements which, taking account of the investments held, are an essential document to ensure complete understanding of the activities of the Group, the Parent and its investments.

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12. Non-current financial assets

At 31 December 2018, non-current financial assets amounted to Euro 24,225 thousand (Euro 16,813 thousand at 31 December 2017), Euro 24,223 thousand of which relating to interest-free loans granted to the subsidiary Cairo Network S.r.l., shown net of an impairment provision of Euro 127 thousand attributable to the application of IFRS 9.

13. Prepaid tax assets

At 31 December 2018, prepaid tax assets amounted to Euro 3,589 thousand (Euro 3,035 thousand at 31 December 2017). These assets can be broken down as follows:

	31/12/2018		31/12/2017	
Deferred tax assets (€ thousands)	**Amount of temporary differences**	**Tax effect**	**Amount of temporary differences**	**Tax effect**
Taxed allowance for impairment	489	117	180	44
Taxable loss from group tax consolidation	13,885	3,332	11,895	2,855
POST-EMPLOYMENT BENEFITS IAS	302	72	313	75
Other temporary differences	412	67	245	61
Total deferred tax assets	**15,088**	**3,589**	**12,633**	**3,035**

Prepaid 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.

14. Trade receivables

Trade receivables amounted to Euro 419 thousand, decreasing by Euro 250 thousand versus 31 December 2017. These are broken down as follows:

Receivables from customers (€ thousands)	**31/12/2018**	**31/12/2017**	**Change**
Trade receivables	484	823	(339)
Allowance for impairment	(65)	(154)	89
Total trade receivables	**419**	**669**	**(250)**

The net change in the allowance for impairment versus 31 December 2017 is entirely attributable to utilizations of Euro 89 thousand.

For further details on credit risk, reference should be made to Note 30.

Since 2009, Cairo Communication has operated on the advertising sales market on a sub-concession basis with the subsidiary Cairo Pubblicità, which invoices directly to its customers and returns a share of the revenue to its parent. Current receivables arising from this activity accrue from the subsidiary.

The ageing of trade receivables by due date is as follows:

31 December 2018	Current	Past due 30-60 days	Past due 61-90 days	Past due 91-180 days	Past due over 180 days	Total
Trade receivables	147	-	-	30	307	484
Allowance for impairment	(2)	-	-	(1)	(62)	(65)
Receivables from customers	**145**	-	-	**29**	**245**	**419**

31 December 2017	Current	Past due 30-60 days	Past due 61-90 days	Past due 91-180 days	Past due over 180 days	Total
Trade receivables	498	-	-	1	324	823
Allowance for impairment	-	-	-	-	(154)	(154)
Receivables from customers	**498**	-	-	**1**	**170**	**669**

Trade receivables are stated net of the allowance for impairment that has been determined taking account specific collection risks, and takes into account the allocation to the Company's media clients of a percentage of losses on receivables, equal to the percentage of sales revenue allocated, pursuant to advertising space sales contracts signed between the two parties. Specifically, receivables due more than 180 days are those which arose when the Company used to operate directly as an advertising agency. As explained, since 2009, advertising sales have been managed under a sub-concession agreement with the subsidiary Cairo Pubblicità.

15. Receivables from subsidiaries

These amounted to Euro 48,334 thousand, decreasing by Euro 61 thousand versus 31 December 2017, and are shown net of an allowance for impairment of Euro 217 thousand following application of IFRS 9.

These are broken down as follows:

Receivables from subsidiaries (€ thousands)	31/12/2018	31/12/2017	Change
La7 S.p.A.	1,963	116	1,847
Cairo Editore S.p.A.	5,716	3,863	1,853
Il Trovatore S.r.l.	315	289	26
Cairo Publishing S.r.l.	97	51	46
Cairo Pubblicità S.p.A.	40,158	42,440	(2,282)
Cairo Network S.r.l.	94	1,207	(1,113)
Digicast S.r.l.	112	56	56
RCS MediaGroup S.p.A.	97	373	(276)
Total gross receivables from subsidiaries	**48,552**	**48,395**	**158**
Write-downs	(217)	-	(217)
Total receivables from subsidiaries	**48,334**	**48,395**	**(61)**

Receivables from Cairo Pubblicità S.p.A. (Euro 40,158 thousand) refer, for Euro 39,905 thousand, to the sub-concession contracts for TV and web advertising sales, the provision of administrative services and the use of serviced spaces. The item also includes receivables arising from Group VAT (Euro 81 thousand) and the tax consolidation scheme (Euro 112 thousand), and other receivables (Euro 60 thousand).

Receivables from Cairo Editore S.p.A. (Euro 5,716 thousand) refer to centralized services provided by the Parent (Euro 1,856 thousand) and to the receivable from participation in the tax consolidation scheme (Euro 3,860 thousand).

Receivables from La7 S.p.A. (Euro 1,963 thousand) consist mainly of receivables arising from Group VAT.

Receivables from Il Trovatore S.r.l. (Euro 315 thousand) refer mainly to centralized services provided by the Parent, while the receivable from Cairo Network S.r.l. (Euro 94 thousand) refers entirely to the receivable from Group VAT.

Administrative services and use of serviced spaces to subsidiaries are provided by Cairo Communication through annual contracts at market value, renewable on a yearly basis.

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16. Other receivables and other current assets

These amounted to Euro 872 thousand, decreasing by Euro 1,074 thousand versus 31 December 2017, and can be analyzed as follows:

Sundry receivables and other current assets (€ thousands)	31/12/2018	31/12/2017	Change
Prepaid IRAP	-	71	(71)
Current IRES	148	143	5
Current VAT	-	985	(985)
Receivables from others	65	100	(35)
Prepayments and accrued income	659	647	12
Total sundry receivables and other current assets	**872**	**1,946**	**(1,074)**

17. Cash and cash equivalents

The item amounted to Euro 4,305 thousand, decreasing by Euro 2,252 thousand versus the prior year, and is broken down as follows:

Cash and cash equivalents (€ thousands)	31/12/2018	31/12/2017	Change
Bank and post office deposits	4,303	6,551	(2,248)
Cash	2	6	(4)
Total	**4,305**	**6,557**	**(2,252)**

Cash and cash equivalents continued to be managed prudently.

The **net financial position** of Cairo Communication at 31 December 2018 can be analyzed as follows:

	31/12/2018	31/12/2017	Change
Cash and cash equivalents	4,305	6,557	(2,252)
Deposit account with La7 S.p.A.	(40,031)	-	(40,031)
Non-current financial payables	(40,000)	(78,200)	38,200
Total	**(75,726)**	**(71,643)**	**(4,083)**

Non-current financial payables refer to a loan agreement with Intesa Sanpaolo for a revolving facility totaling Euro 140 million (Euro 40 million of which drawn down at 31 December 2018) to fund both the cash component of the Offer for the acquisition of RCS and for other general corporate purposes. The loan has a duration of 60 months from the date of first use, with a margin of 48 basis points over the Euribor (for a duration corresponding to the relevant interest period), and does not require any collateral or financial covenants, or limits to the distribution of dividends by Cairo Communication.

The loan agreement provides for the customary representations, warranties and commitments typical of such

transactions. No commitments are required from Cairo Communication in relation to RCS Group companies (including limits to the disposal of assets or the assumption of financial debt). Additionally, the loan agreement contains a cross-default clause (i.e., call in of the loan in the event of default under other loan agreements) regarding exclusively loan agreements relating to Cairo Communication and certain relevant subsidiaries (Cairo Editore, Cairo Pubblicità and La7), excluding, therefore, the loan agreements related to the RCS Group.
Early repayment is envisaged in the event of a change in control of Cairo Communication, and should the latter cease to directly or indirectly hold an interest of at least 35% in the share capital of RCS.

The net financial position also includes financial payables to the subsidiary La7 S.p.A. deriving from the short-term interest-bearing liquidity deposit agreement (Euro 40 million).

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18. Equity

At 31 December 2018, equity amounted to Euro 251,610 thousand, decreasing by Euro 7,218 thousand versus 31 December 2017, as a result of the distribution of the 2017 dividend resolved by the Shareholders' Meeting of 27 April 2018 (Euro 13,442 thousand), of the overall result for 2018 (Euro 6,458 thousand), and the adjustment to reduce retained earnings for Euro 239 thousand resulting from the application of the expected credit loss model introduced by IFRS 9, replacing the incurred credit loss model under IAS 39.

Share capital

The share capital at 31 December 2018 was Euro 6,990 thousand, subscribed and fully paid up, comprising no. 134,416,598 ordinary shares, with no indication of par value.
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.
Since January 2019, a number of shareholders have become eligible for increased voting rights pursuant to art. 13.7 of the bylaws. The total amount of voting rights and the updated list of shareholders with an interest above 5% of the share capital of the Company registered in the special list for the entitlement to the benefit of the increased voting right and who have obtained the double vote pursuant to articles 85-bis, par. 4-bis and 143-quater, par. 5, of the Issuer Regulations are published on the website www.cairocommunication.it Corporate Governance section - increased voting right.

Specifically,

- the shareholder U.T. Communications S.p.A. has accrued (as of 8 January 2019) entitlement to the benefit of the increased voting right for no. 33,822,123 shares;
- shareholders with an interest above 5% registered on the special list for the entitlement to the benefit of the increased voting right and who have not accrued such entitlement yet are: U.T. Communications S.p.A. with no. 24,217,123 shares, as of 14 February 2018, and Urbano Cairo with no. 9,705,000 shares, as of 14 February 2018.

All the above positions refer to the controlling party Urbano Cairo.

Without prejudice to the above, no securities carrying special controlling rights have been issued to date.

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

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

The reconciliation between the number of shares outstanding at 31 December 2018 and those at 31 December 2017 is as follows:

	31/12/2017	Share capital increase	Purchase/disposal of treasury shares	31/12/2018
Ordinary shares issued	134,416,598	-	-	134,416,598
Treasury shares	(779)	-	-	(779)
Outstanding ordinary shares	**134,415,819**	**-**	**-**	**134,415,819**

Share premium reserve

At 31 December 2018, the share premium reserve amounted to Euro 236 thousand, decreasing by Euro 6,366 thousand versus the prior year, as a result of the distribution of dividends.

Retained earnings

At 31 December 2018, the balance showed a positive Euro 89 thousand. The item includes the IAS first-time adoption reserve, with a negative balance of Euro 1,313 thousand.
This item incorporates the adjustment at 1 January 2018 due to the effects for Euro 239 thousand deriving from the application of the expected credit loss model introduced by IFRS 9.

Retained earnings (€ thousands)	**31/12/2018**	**31/12/2017**
Prior-years' profit	1,641	1,636
Effects from the application of IFRS 9	(239)	-
Prior-years' profit – "first-time adoption" reserve	(1,313)	(1,313)
Total	**89**	**323**

Other reserves

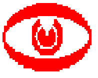
At 31 December 2018, the item amounted to Euro 1,640 thousand, increasing by Euro 231 thousand versus the prior year. It can be analyzed as follows:

Other reserves (€ thousands)	**31/12/2018**	**31/12/2017**
Legal reserve	1,398	1,167
Negative goodwill	225	225
Other reserves	17	17
Total	**1,640**	**1,409**

Treasury shares reserve

In 2018, as part of the share buy-back plans, no treasury shares were sold or purchased. At 31 December 2018, Cairo Communication held a total of no. 779 treasury shares, or 0.001% of the share capital, subject to art. 2357-ter of the Italian Civil Code.

The Shareholders' Meeting of 27 April 2018, after revoking a similar resolution adopted on 8 May 2017, approved the proposal for the purchase and disposal of treasury shares, pursuant to art. 2357 et seq. of the Italian Civil Code, for the purpose of supporting share liquidity on the market for a set period of time and thus fostering regular conduct of trading and avoiding abnormal movements in the share price and, if deemed necessary by the Board of Directors, through an independent intermediary in accordance with Market Practice no. 1, or of establishing a "shares stock" in accordance with Market Practice no. 2 as provided in



CONSOB Resolution 16839/2009. Specifically, the Board of Directors was authorized to purchase treasury shares up to the maximum number permitted by law, for a period of 18 months from the authorization date, by using (i) retained earnings distributable by the Company, as resulting from the latest approved financial statements, net of the allocation to the legal reserve, and (ii) the available reserves, including the share premium reserve. The Board of Directors will be authorized to purchase treasury shares on one or more occasions, purchasing shares directly on the market, in accordance with the procedures under art.144 *bis*, par. 1, lett. b of the Issuer Regulations, through authorized intermediary, according to applicable laws and, in case such operations are carried out according to accepted market practices under CONSOB Resolution No. 16839/2009, in accordance with the provisions of such Resolution.

Minimum price and maximum purchase 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 trading days before 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 of Directors was authorized to sell, on one or more occasions, any purchased 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. This price limit will not apply to the: (i) sale of treasury shares to directors, employees, and/or associates of the Company and/or its subsidiaries and/or the Parent Company in implementation of incentive plans; (ii) transactions in relation to which it may be appropriate to exchange or dispose of share packages, including by way of exchange or contribution, or (iii) capital transactions involving the assignment, disposal or cancellation of treasury shares (such as, by way of example, mergers, demergers, issue of convertible bonds or warrants served by treasury shares).

As part of the buyback plan approved by the Annual General Meeting on 27 April 2018, no treasury shares were sold or purchased in 2018.

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The table below shows equity items and indicates if they can be used and distributed, and tax restrictions if any:

Number/Description (€ thousands)	Amount	Eligibility for use:	Available portion	Use over the previous three years: To cover losses	Other (dividends)
Share capital	6,990			-	-
Treasury shares	(2)			-	-
Share premium reserve (1)	236,436	ABC	236,436	-	18,126
Legal reserve	1,398	B		-	-
Other reserves	17	ABC	17	-	-
Negative goodwill	225	ABC	225	-	-
Prior-years' profit	89	ABC	89	-	25,415
Total	**245,153**		**236,767**	**-**	**43,541**

Key:
A - for increases in share capital
B - to cover losses
C - dividend
(1) In accordance with art. 2431 of the Italian Civil Code, the entire amount of this reserve may be distributed provided the legal reserve has reached the limit as defined by art. 2430 of the Code

Profit for the year

Profit for the year amounted to Euro 6,458 thousand (Euro 7,306 thousand at 31 December 2017).

19. Post-employment benefits

This item amounted to Euro 1,395 thousand, with a net difference of Euro 48 thousand versus the prior year. The movement is analyzed below:

	Balance at 31/12/2017	Paid during the year	Financial expense	Allocation for the year	Actuarial effect	Balance at 31/12/2018
Post-employment benefits	1,347	(43)	20	81	(10)	1,395
Total	**1,347**	**(43)**	**20**	**81**	**(10)**	**1,395**

The change in the composition of personnel during the year is summarized as follows:

	Headcount at the beginning of the year	Changes	Headcount at year-end	Average headcount
Senior managers	8	(1)	7	8
Managers	2	-	2	2
Employees	17	-	17	17
Total	**27**	**(1)**	**26**	**27**

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20. Provisions for risks and charges

Provisions for risks and charges amounted to Euro 177 thousand, unchanged versus the prior year.

	Balance at 31/12/2017	Utilizations	Released	Alloc.	Balance at 31/12/2018
Risks on investments	142	-	-	-	142
Provision for sundry risks	35	-	-	-	35
Total	**177**	**-**	**-**	**-**	**177**

The "provision for risks on investments" refers entirely to the investee Diellesei S.r.l. in liquidation.

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21. Payables to suppliers

Payables to suppliers amounted to Euro 2,974 thousand, decreasing by Euro 348 thousand versus 31 December 2017.

22. Receivables from and payables to parent

Receivables from parents amounted to Euro 156 thousand, unchanged versus 31 December 2017, and refer mainly to receivables from U.T. Communications arising from the national tax consolidation scheme, following requests for the reimbursement of IRAP submitted in accordance with Decree Law 201/2011 for non-deduction of IRAP relating to personnel and similar expenses.

23. Payables to subsidiaries

Payables to subsidiaries amounted to Euro 72,151 thousand, increasing by Euro 9,242 thousand versus 31 December 2017, and are broken down as follows:

Payables to subsidiaries (€ thousands)	31/12/2018	31/12/2017	Change
La7 S.p.A.	69,500	60,653	8,847
Cairo Pubblicità S.p.A.	1,611	1,040	571
Cairo Publishing S.r.l.	22	21	1
Il Trovatore S.r.l.	173	66	107
Cairo Editore S.p.A.	-	-	-
Cairo Network S.r.l.	539	408	131
RCS MediaGroup S.p.A.	292	721	(429)
Diellesei S.r.l. in liquidation	14	-	14
Total	**72,151**	**62,909**	**9,242**

Payables to La7 S.p.A. arise mainly from the publisher's share acknowledged to the subsidiary for advertising sales on La7 and La7d.

24. Financial payables to subsidiaries

Financial payables to subsidiaries, amounting to Euro 40,030 thousand, are entirely attributable to the short-term interest-bearing liquidity deposit agreement signed with La7 S.p.A. on 19 October 2018.

Under the contract, the duration of the deposit will be negotiated from time to time in a monthly interval between one and twelve months at the request of La7 S.p.A.

25. Tax payables

Payables to subsidiaries amounted to Euro 848 thousand, increasing by Euro 611 thousand versus 31 December 2017. The item is broken down as follows:

Tax payables (€ thousands)	31/12/2018	31/12/2017	Change
Withholding taxes on employees	140	162	(22)
Withholding taxes on contract workers	90	75	15
Current IRAP	16	-	16
VAT payable	602	-	602
Total tax payables	**848**	**237**	**611**

26. Other current liabilities

Other current liabilities amounted to Euro 2,139 thousand, increasing by Euro 120 thousand versus 31 December 2017. The item is broken down as follows:

Other current liabilities (€ thousands)	31/12/2018	31/12/2017	Change
Social security charges payable	240	225	15
Other payables	1,845	1,710	135
Accrued expenses	54	84	(30)
Total	**2,139**	**2,019**	**120**

27. Commitments, risks and other information

Pursuant to art. 1 par. 125 to 129 of Law no. 124 of 4 August 2017, with regard to the obligations to publish grants, contributions, paid assignments and, in any case, economic benefits of any kind received from the PA, and to art. 3-quater, par. 2, of Decree Law no. 135/2018 (Simplification Decree), it should be noted that the Allocating Bodies are required to publish the contributions in the National Aids Register, available at: www.rna.gov.it/sites/PortaleRNA/it_US/transparency in the field of State aid and de minimis aid; it should be noted that in 2018 Cairo Communication did not benefit from grants, contributions, paid assignments and in any case economic benefits of any kind received from the PA.

Guarantees and commitments

Main guarantees given and/or received are as follows:

- Cairo Communication issued Unicredit S.p.A. a guarantee to secure the bank loan initially of Euro 25,000 thousand (Euro 5,000 thousand outstanding at 31 December 2018) granted in July 2014 to the subsidiary Cairo Network for the purchase of the rights to use television frequencies. The loan agreement has no financial covenants. Early repayment is, instead, provided for in the event of a change of control of Cairo Network;
- guarantees issued by bank and insurance institutes to customers, public bodies and lessors of property totaling Euro 1,209 thousand.

With regard to the commitments, risks and other information relating to Cairo Communication's subsidiaries, reference should be made to the explanatory notes to the consolidated financial statements at 31 December 2018.

It is also noted that:

- the financial statements at 31 December 2018 do not include any receivables or payables with a residual term exceeding five years.
- The financial statements at 31 December 2018 do not include the capitalization of borrowing costs.

The main operating leases held by Cairo Communication refer to property leases, company cars, plant and equipment and electronic devices.

The amount of outstanding lease payments still due by Cairo Communication at the reporting date for irrevocable operating leases is as follows:

Minimum lease payments	**31/12/2018**	**31/12/2017**
Future payments for operating leases		
due within one year	577	590
due within five years	1,593	1,950
due beyond five years	9	87
Total	**2,179**	**2,626**

28. Related party transactions

In 2018, transactions carried out by Cairo Communication with related parties and the effect on the financial statements are shown as follows:

Receivables and financial assets (€ thousands)	**Trade receivables**	**Other receivables and current assets**	**Intra-group financial assets**	**Other current financial assets**
Parent UT Communications	59	97	-	-
Subsidiaries of Cairo Communication Group				
Cairo Pubblicità S.p.A.	39,966	192	-	-
Cairo Editore S.p.A.	1,856	3,860	-	-
Cairo Publishing S.r.l.	55	42	-	-
Il Trovatore S.r.l.	315	-	-	-
La7 S.p.A.	116	1,846	-	-
RCS MediaGroup S.p.A.	97	-	-	-
Digicast S.r.l.	112	-	-	-
Cairo Network S.r.l.	-	94	24,350	-
Affiliates of UT Communications Group				
Torino FC S.p.A.	61	-	-	-
Total gross receivables	**42,637**	**6,131**	**24,350**	
Write-downs	(217)	-	(127)	**-**
Total	**42,420**	**6,131**	**24,223**	**-**

Payables and financial liabilities (€ thousands)	**Trade payables**	**Other payables and current liabilities**	**Intra-group financial payables**	**Other financial liabilities**
Parent UT Communications	-	-	-	-
Subsidiaries of Cairo Communication Group				
Cairo Pubblicità S.p.A.	1,610	1	-	-
La7 S.p.A.	65,768	3,732	40,031	-
Cairo Publishing S.r.l.	-	22	-	-
Il Trovatore S.r.l.	173	-	-	-
Cairo Network S.r.l.	-	539	-	-
RCS MediaGroup S.p.A.	292	-	-	-
Diellesei S.r.l. in liquidation	-	14	-	-
Affiliates of UT Communications Group				
Torino FC S.p.A.	17	-	-	-
Total	**67,860**	**4,308**	**40,031**	-

Income and expense (€ thousands)	**Operating revenue**	**Operating costs**	**Financial income**	**Financial expense**	**(Expense)/ Income from investments**
Parent UT Communications	-	-	-	-	-
Subsidiaries of Cairo Communication Group					
Cairo Pubblicità S.p.A.	111,815[1]	-	-	-	-
Cairo Editore S.p.A.	480	-	-	-	7,129
La7 S.p.A.	149	(102,674)[1]	-	(31)	-
Cairo Publishing S.r.l.	-	-	-	-	(28)
Il Trovatore S.r.l.	22	(88)	-	-	-
RCS MediaGroup S.p.A.	260	(807)	-	-	-
Digicast S.r.l.	46	-	-	-	-
Affiliates of UT Communications Group					
Torino FC S.p.A.	100	-	-	-	-
Total	**112,872**	**(103,569)**	-	**(31)**	**7,101**

(1) In the financial statements, the amount of Euro 6,440 thousand is shown net of publishers' fees, with an equivalent reduction in the corresponding costs and, in particular, elimination of the fees of La7, equal to Euro 102,674 thousand, as shown in the table.

	Cairo Editore	**RCS MediaGroup**	**Cairo Pubblicità**	**Cairo Publishing**	**La7**	**Il Trovatore**	**Torino FC**
Expense (€ thousands)							
Internet services	-	-	-	-	-	(88)	-
Publishers' fees	-	-	-	-	(102,674)	-	-
Seconded personnel	-	(138)	-	-	-	-	-
Leases and ancillary expense	-	(653)	-	-	-	-	-
Mandatory notices	-	(15)	-	-	-	-	-
Impairment losses on equity investments	-	-	-	(28)	-	-	-
Other general expenses	-	(1)	-	-	-	-	-
Interest expense	-	-	-	-	(31)	-	-
Total	-	**(807)**	-	**(28)**	**102,705**	**(88)**	-

	Cairo Editore	RCS MediaGroup	Cairo Pubblicità	Digicast	La7	Il Trovatore	Torino FC
Income (€ thousands)							
Sub-concession payment	-	-	108,654	-	-	-	-
Administrative services and use of serviced space	480	-	3,000	-	-	22	100
Recharged costs	-	260	161	46	149	-	-
Dividends	7,129	-	-	-	-	-	-
Total	**7,609**	**260**	**111,815**	**46**	**149**	**22**	**100**

Cairo Communication provides a range of services to a number of its subsidiaries and investees relating mainly to management accounting software, use of serviced spaces, administration, finance, treasury, management control, credit management and marketing activities, to allow the individual companies to benefit from economies of scale and more efficient management.

In 2018, Cairo Pubblicità S.p.A. worked for Cairo Communication:

- as sub-lessee of Cairo Communication for TV advertising sales (La7 and theme channels under concession Cartoon Network and Boomerang) and Internet advertising sales;
- as sub-lessee for print media advertising sales only for the magazines of Editoriale Genesis.

Under these agreements, Cairo Pubblicità directly invoices customers and returns a percentage of proceeds to the sub-lessor.

In the year under review, there were no transactions with the parent (U.T. Communications) or with subsidiaries of the latter, except for the contract with Torino F.C. for the provision of administrative services such as bookkeeping; the agreement sets an annual fee of Euro 100 thousand.

Cairo Communication presented the tax consolidation scheme option pursuant to art. 117/129 of the TUIR (Consolidated Income Tax Act) starting from 2016, together with the subsidiaries Cairo Editore, Cairo Pubblicità, Diellesei in liquidation, Cairo Publishing, La7 and Cairo Network.

Fees paid to the directors in the year are analyzed in Note 30 “Board of Directors’ and Board of Statutory Auditors’ fees” and in the Remuneration Report, prepared pursuant to art. 123 ter of the TUF.

In 2018, Studio Magnocavallo e Associati earned fees for professional services provided to companies of the Cairo Communication Group for approximately Euro 276 thousand.

During the year, no transactions were concluded with members of the Board of Directors of the Company, general managers and/or key management personnel, members of the Board of Statutory Auditors, and the Financial Reporting Manager, further than fees paid and as 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”.

29. Risk management

Liquidity risk

Liquidity risk may arise from difficulties in obtaining loans to support operations in accordance with the proper timescales, and, if necessary, to repay loans falling due.

Mention should be made that in July 2016, as part of the transaction for the acquisition of control of RCS, Cairo Communication had concluded a revolving facility with Intesa Sanpaolo for a total amount of Euro 140 million, aimed at funding both payment of the cash component of the Offer and other general corporate purposes. The loan has a duration of 60 months from the date of first use, with a margin of 48 basis points over the Euribor (for a duration corresponding to the relevant interest period), and does not require any collateral or financial covenants, or limits to the distribution of dividends by Cairo Communication.

Liquidity analysis

The table below summarizes the equity profile of Cairo Communication current assets and liabilities at 31 December 2018:

Description	31/12/2018	31/12/2017	Change
Trade receivables and other current assets	49.8	51.2	(1.4)
Trade payables and other current liabilities	(78.1)	(68.5)	(9.6)
Net working capital	**(28.3)**	**(17.3)**	**(11.0)**
Cash and cash equivalents	4.3	6.6	(2.3)
Current financial liabilities	(40.0)	-	(40.0)
Current net financial position	**(35.7)**	**6.6**	**(42.3)**
Difference between current assets and current liabilities	**(64.1)**	**(10.8)**	**(53.3)**

At 31 December 2018, the difference between current assets and liabilities showed a negative balance of Euro 64.1 million, a difference of Euro 53.3 million versus the prior year (a negative Euro 10.8 million at 31 December 2017), due mainly to the lower use of the medium/long-term revolving line and the activation of short-term financial liabilities arising from the cash deposit agreement with La7 S.p.A.

In this regard, it should be noted that, at 31 December 2018:

- only approximately Euro 40 million out of a total of Euro 140 million of the medium-long term revolving credit facility granted by Banca Intesa to Cairo Communication had been drawn down at 31 December 2018;
- the Company attempts to ensure that an appropriate ability to generate cash is maintained, even under the current market conditions;

- current financial liabilities, amounting to Euro 40 million, are entirely attributable to the short-term interest-bearing liquidity deposit agreement concluded with La7 S.p.A. on 19 October 2018. Under the contract, the duration of the deposit will be negotiated from time to time in a monthly interval between one and twelve months at the request of La7 S.p.A..

The table below summarizes the time profile of Cairo Communication financial assets and liabilities at 31 December 2018 based on the non-discounted collections and payments set out in the contracts (including principal and interest even if not accrued at the reporting date):

31 December 2018	On demand	< 6 months	6 m - 1 year	1-2 years	2-5 years	> 5 years	Total
Non-current financial receivables	-	-	-	-	24.3	-	24.3
Cash and cash equivalents	4.3	-	-	-	-	-	4.3
Interest income	-	-	-	-	-	-	-
Total financial assets	**4.3**	**-**	**-**	**-**	**24.3**	**-**	**28.6**
Financial payables to third parties	-	-	-	-	(40.0)	-	(40.0)
Hedging derivatives	-	-	-	-	-	-	-
Financial payables to Group companies	-	-	(40.0)	-	-	-	(40.0)
Interest expense	-	(0.1)	(0.1)	(0.3)	-	-	(0.5)
Total financial liabilities	**-**	**(0.1)**	**(40.1)**	**(0.3)**	**(40.0)**	**-**	**(80.5)**

31 December 2017	On demand	< 6 months	6 m - 1 year	1-2 years	2-5 years	> 5 years	Total
Non-current financial receivables	-	-	-	-	16.8	-	16.8
Cash and cash equivalents	6.6	-	-	-	-	-	6.6
Interest income	-	-	-	-	-	-	-
Total financial assets	**6.6**	**-**	**-**	**-**	**16.8**	**-**	**23.4**
Financial payables to third parties	-	-	-	-	(78.2)	-	(78.2)
Financial payables to Group companies	-	-	-	-	-	-	-
Interest expense	-	(0.2)	(0.2)	(0.8)	(0.2)	-	(1.3)
Total financial liabilities	**-**	**(0.2)**	**(0.2)**	**(0.8)**	**(78.4)**	**-**	**(79.5)**

The amounts shown in the table above, unlike the amounts of total net financial debt, include non-interest bearing non-current financial receivables of Euro 24.3 million (Euro 16.8 million in 2017) granted to the subsidiary Cairo Network S.r.l.

Interest rate risk

Interest rate risk consists of potential and higher financial expense stemming from an unfavorable and unexpected change in interest rates. At 31 December 2018, the Company holds exclusively floating rate financial instruments and, therefore, is exposed to said risk.

The floating rate financial instruments exposed to interest rate risk are those included in the net financial position, amounting to Euro -75.7 million at 31 December 2018. Regarding these values, a variation of +/- 1% in the reference interest rate curves would result in an increase (decrease) in financial expense of Euro 0.7 million on an annual basis.

Currency risk

Cairo Communication is not exposed to currency risk as revenue is generated entirely in Italy and the main costs are incurred in Euro.

Credit risk

Cairo Communication has limited exposure to credit risk given that its advertising sales activities are performed through sub-concession agreements with the subsidiary Cairo Pubblicità. Trade receivables are therefore due almost entirely from other Group companies.

The table below shows the Group's maximum exposure to credit risk for equity components:

Description	**31/12/2018**	**31/12/2017**	**Change**
Trade receivables	48.9	49.2	(0.3)
Other current assets	0.2	1.3	(1.2)
Non-current financial receivables	24.2	16.8	7.4
Total receivables and other assets	**73.3**	**67.4**	**5.9**
Cash and cash equivalents	4.3	6.6	(2.3)
Total	**77.6**	**73.9**	**3.7**

The breakdown of trade receivables by due date is commented on in Note 14.

30. Financial Instruments: disclosures

As required by IFRS 7, the table below shows the carrying amounts of items included in each category identified by IFRS 9.

The carrying amount generally coincides with the measurement at amortized cost of the financial assets/liabilities, except for derivative instruments and other equity instruments measured at fair value.

In accordance with IFRS 7, other receivables and other current assets, shown in the table below, do not include tax receivables, accrued income and prepaid expenses and receivables from social security institutions.

Likewise, sundry payables and other current liabilities do not include payables to social security institutions, accrued expenses and deferred income, and untaken holiday entitlement.

Description	31/12/2018	31/12/2017
FINANCIAL ASSETS		
Financial assets at amortized cost		
Non-current financial receivables	24.2	16.8
Trade receivables	0.4	0.7
Receivables from parents, associates and affiliates	48.3	48.5
Sundry receivables and other current assets	0.1	0.1
Cash and cash equivalents	4.3	6.6
TOTAL	**77.3**	**72.7**
FINANCIAL LIABILITIES		
Financial liabilities at amortized cost		
Non-current financial payables and liabilities	40.0	78.2
Current financial payables	40.0	-
Trade payables	2.9	3.3
Payables to parents, associates and affiliates	72.1	62.9
Sundry payables and other current liabilities	0.5	0.5
TOTAL	**156.6**	**146.0**

In accordance with IFRS 7, the effects produced in the income statement on financial assets/liabilities measured at amortized cost amounted to Euro 0.4 million.

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

For the year ended 31 December 2018, the following information referring to the fees paid to Directors, Statutory Auditors, General Managers and key management personnel, also in subsidiaries, is analyzed in detail in the Remuneration Report, prepared pursuant to art. 123 ter of the TUF, and in summary form in the table below:

(€ millions)	Cost of services	Personnel expense	Sundry payables and
In Cairo Communication S.p.A.			
Board of Directors - fees	(0.3)	-	-
Board of Statutory Auditors - fees	(0.1)	-	0.0
Chief Executive Officers	(0.4)	(0.7)	0.2
Key management personnel	-	(0.3)	-
Total from Cairo Communication S.p.A.	**(0.8)**	**(1.0)**	**0.2**
In subsidiaries			
Board of Directors - fees	(0.1)	-	-
Board of Statutory Auditors - fees	(0.2)	-	0.2
Chief Executive Officers	(3.9)	-	1.7
Key management personnel	(0.2)	(5.0)	0.1
Total from subsidiaries	**(4.4)**	**(5.0)**	**2.0**
Grand total	**(5.2)**	**(6.0)**	**2.3**

It should be noted that:

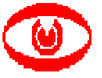
- there are no agreements in place between the Parent and the directors for any indemnity in the event of resignation or unjust dismissal, or in the event their employment relationship ceases following a takeover bid;
- there are agreements in place between the Parent and Uberto Fornara, subject to non-competition 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.

Moreover, there are no succession plans regarding executive directors.

At 31 December 2018, key management personnel of the Cairo Communication Group was composed of:

- Giuseppe Ferrauto (Director, General Manager and manager of Cairo Editore);
- Marco Ghigliani (CEO, General Manager and manager of La7);
- Mario Cargnelutti (Director and operations manager of Cairo Pubblicità and manager of Cairo Communication);
- Alberto Braggio (Director of Cairo Editore and head of planning, finance and control and manager of Cairo Communication).

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



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

Pursuant to CONSOB Communication of 28 July 2006 no. DEM/6064296, it should be noted that in 2018 the Cairo Communication Group did not engage in any atypical and/or unusual transactions as defined by the above Communication.

33. Entity which prepares the consolidated financial statements of the largest body of entities, of which the entity forms part as a subsidiary

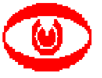
U.T. Communications S.p.A., with registered office in Via Montenapoleone 8, Milan, where a copy of the consolidated financial statements is also available.

34. Entity which prepares the consolidated financial statements of the smallest body of entities, of which the entity forms part as a subsidiary

U.T. Communications S.p.A., with registered office in Via Montenapoleone 8, Milan, where a copy of the consolidated financial statements is also available.

35. Events after the reporting period and business outlook

Events after the reporting period and the business outlook are commented on in the Directors' Report.



Shareholders,

We invite you to approve the separate financial statements as at and for the year ended 31 December 2018 and the accompanying reports, and we propose the distribution of a dividend of Euro 0.14 per share, gross of tax.

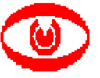
Shareholders are invited:

- to approve the financial statements for the year ended 31 December 2018, which show profit for the year of Euro 6,458,094.37;
- to resolve on the distribution to shareholders of a dividend of Euro 0.14 per share, gross of tax, for each share entitled to receive profit distributions, with the exception of treasury shares held by the Company on the date prior to the record date pursuant to art. 83-*terdecies* of the TUF, by allocating the entire profit for the year of Euro 6,458,094.37 and drawing on the share premium reserve for the difference up to of Euro 12,360,229.35.

If approved by the Shareholders, the dividend of Euro 0.14 per share will be made payable on 29 May 2019 (record date pursuant to art. 83-terdecies of the TUF: 28 May 2019), prior to detachment of coupon no. 13 on 27 May 2019.

For the Board of Directors

Chairman Urbano Cairo



Cairo Communication S.p.A.
Financial statements at 31 December 2018 – Annexes and Appendix

ANNEX 1

List of investments in direct subsidiaries

Company name and registered office (€ millions)	Share Capital	Profit (loss) most recent ancial period (*)	Equity	% held
Cairo Editore S.p.A - Milan				
At 31/12/17	1.0	7.1	9.2	99.95
At 31/12/18	**1.0**	**5.2**	**7.2**	**99.95**
Rcs MediaGroup S.p.A - Milan				
At 31/12/17	475.1	53.7	410.2	59.69
At 31/12/18	**270.0**	**41.9**	**451.3**	**59.69**
LA7 S.p.A - Rome				
At 31/12/17	1.0	(5.3)	88.8	100.00
At 31/12/18	**1.0**	**(3.8)**	**85.0**	**100.00**
Il Trovatore S.r.l. - Milan				
At 31/12/17	0.0	0.1	0.5	80.00
At 31/12/18	**0.0**	**0.1**	**0.6**	**80.00**
Cairo Pubblicità S.p.A. - Milan				
At 31/12/17	2.8	0.1	2.3	100.00
At 31/12/18	**2.8**	**(0.3)**	**2.0**	**100.00**
Diellesei S.r.l. in liquidation - Milan				
At 31/12/17	0.0	0.0	0.0	60.00
At 31/12/18	0.0	**0.2**	**0.1**	**60.00**
Cairo Publishing S.r.l. - Milan				
At 31/12/17	0.0	(0.2)	(0.1)	100.00
At 31/12/18	**0.0**	**(0.0)**	**(0.0)**	**100.00**
Cairo Network S.r.l. - Milan				
At 31/12/17	5.5	(1.3)	4.1	100.00
At 31/12/18	**5.5**	**(0.4)**	**3.6**	**100.00**

(*) Figures at 31/12/2017 refer to the financial statements approved by the respective Shareholders' Meetings. Figures at 31/12/2018 refer to the draft financial statements approved by the respective Boards of Directors.

ANNEX 2

Summary figures of the draft financial statements of subsidiaries in the advertising segment, il Trovatore and discontinued operations at 31 December 2018

(€ millions)	Cairo Pubblicità Financial statements at 31.12.18	Il Trovatore Financial statements at 31.12.18	Diellesei S.r.l. in liquidation Financial statements at 31.12.18
Assets			
A) Share capital proceeds to be received	0.00	0.00	0.00
B) Intangible fixed assets	0.00	0.00	0.00
Tangible fixed assets	0.04	0.00	0.00
Financial fixed assets	0.00	0.00	0.00
Total non-current assets	**0.04**	**0.00**	**0.00**
C) Inventory	0.00	0.00	0.00
Receivables	77.22	1.33	0.01
Current financial assets	0.00	0.00	0.00
Cash and cash equivalents	8.40	0.06	0.06
Total current assets	**85.62**	**1.40**	**0.07**
D) Prepayments and accrued income	0.22	0.00	0.00
Total assets	**85.88**	**1.40**	**0.07**
Liabilities			
A) Share capital	2.82	0.03	0.01
Income-related and other reserves	0.01	0.01	0.00
Shareholders' contributions to cover losses	0.00	0.00	0.06
Retained earnings (losses carried forward)	(0.54)	0.43	(0.21)
Net profit (loss) for the year	(0.27)	0.09	0.21
Total equity	**2.02**	**0.55**	**0.07**
B) Provisions for risks and charges	1.44	0.00	0.00
C) Post-employment benefits	1.59	0.02	0.00
D) Payables	80.28	0.83	0.00
E) Accrued expenses and deferred income	0.58	0.00	0.00
Total liabilities	**85.88**	**1.40**	**0.07**
Income statement			
A) Production revenue	158.15	0.88	0.28
B) Production costs	(158.37)	(0.74)	0.00
Difference between operating revenue and operating expense	(0.22)	0.13	0.28
C Financial income (expense)	0.00	0.00	0.00
D) Adjustments to financial assets	0.00	0.00	0.00
Profit (loss) before tax	**(0.21)**	**0.13**	**0.28**
Income tax for the year	(0.06)	(0.04)	(0.07)
Net profit (loss) for the year	**(0.27)**	**0.09**	**0.21**

ANNEX 3

Summary figures of the draft financial statements of direct subsidiaries in the Cairo Editore publishing segment, TV publishing La7, RCS and Network Operator at 31 December 2018.

(€ millions)	**Cairo Editore** Financial statements at 31.12.18	**Rcs MediaGroup** Financial statements at 31.12.18	**Cairo Publishing** Financial statements at 31.12.18	**LA7** Financial statements at 31.12.18	**Cairo Network** Financial statements at 31.12.18
Assets					
A) Share capital proceeds to be received	0.00	0.00	0.00	0.00	0.00
B) Intangible fixed assets	7.07	25.50	0.00	14.76	33.17
Tangible fixed assets	1.85	40.83	0.00	2.23	0.00
Investment property	0.00	2.75	0.00	0.00	0.00
Financial fixed assets	0.05	448.84	0.00	0.15	0.00
Total non-current assets	**8.97**	**517.92**	**0.00**	**17.13**	**33.16**
C) Inventory	2.72	13.78	0.10	0.48	0.00
Receivables	31.99	171.17	1.92	112.79	6.56
Current financial assets	0.00	269.52	0.00	0.26	0.00
Cash and cash equivalents	2.32	0.38	0.36	25.10	3.07
Total current assets	**37.02**	**454.86**	**2.37**	**138.62**	**9.64**
D) Prepayments and accrued income	0.40	6.30	0.00	0.57	0.00
Total assets	**46.40**	**979.08**	**2.38**	**156.33**	**42.81**
Liabilities					
A) Share capital	1.04	270.00	0.01	1.02	5.50
Income-related and other reserves	1.02	114.05	0.01	87.75	0.00
Shareholders' contributions	0.00	0.00	0.00	0.00	0.00
Retained earnings (losses carried forward)	0.00	25.28	0.00	0.04	(1.45)
Net profit (loss) for the year	5.16	41.93	(0.03)	(3.84)	(0.44)
Total equity	**7.23**	**451.26**	**(0.01)**	**84.97**	**3.62**
B) Provisions for risks and charges	1.15	33.45	0.48	5.30	0.00
C) Post-employment benefits	1.97	30.52	0.08	7.16	0.03
D) Payables and other liabilities	35.87	456.65	1.82	58.68	39.15
E) Accrued expenses and deferred income	0.18	7.20	0.00	0.22	0.00
Total liabilities	**46.40**	**979.08**	**2.38**	**156.33**	**42.81**
Income statement					
A) Production revenue	87.55	583.57	1.38	109.93	12.11
B) Production costs	(81.00)	(545.15)	(1.37)	(115.55)	(12.64)
Difference between operating revenue and operating expense	6.55	38.42	0.00	(5.62)	(0.53)
C Financial income (expense)	0.00	(3.23)	0.00	(0.03)	(0.04)
D) Adjustments to financial assets	(0.00)	14.77	0.00	0.26	0.00
Profit (loss) before tax	**6.55**	**49.96**	**0.00**	**(5.39)**	**(0.57)**
Income tax for the year	(1.38)	(8.03)	(0.03)	1.55	0.13
Net profit (loss) for the year	**5.16**	**41.93**	**(0.03)**	**(3.84)**	**(0.44)**

ANNEX 4

Summary figures of the most recently approved financial statements of the subsidiaries in the advertising segment, il Trovatore and discontinued operations (31 December 2017)

(€ millions)	Cairo Pubblicità	Il Trovatore	Diellesei S.r.l. in liquidation
	Financial statements at 31.12.17	Financial statements at 31.12.17	Financial statements at 31.12.17
Assets			
A) Share capital proceeds to be received	0.00	0.00	0.00
B) Intangible fixed assets	0.00	0.00	0.00
Tangible fixed assets	0.03	0.00	0.00
Financial fixed assets	0.00	0.00	0.00
Total non-current assets	**0.03**	**0.00**	**0.00**
C) Inventory	0.00	0.00	0.00
Receivables	71.79	1.03	0.08
Current financial assets	0.00	0.00	0.00
Cash and cash equivalents	6.30	0.05	0.06
Total current assets	**78.09**	**1.08**	**0.14**
D) Prepayments and accrued income	0.27	0.00	0.00
Total assets	**78.39**	**1.08**	**0.14**
Liabilities			
A) Share capital	2.82	0.03	0.01
Income-related and other reserves	0.00	0.01	0.00
Shareholders' contributions to cover losses	0.00	0.00	0.06
Retained earnings (losses carried forward)	(0.67)	0.33	(0.21)
Net profit (loss) for the year	0.14	0.10	(0.00)
Total equity	**2.29**	**0.46**	**(0.14)**
B) Provisions for risks and charges	1.53	0.00	0.06
C) Post-employment benefits	1.48	0.02	0.00
D) Payables	72.74	0.61	0.22
E) Accrued expenses and deferred income	0.35	0.00	0.00
Total liabilities	**78.39**	**1.08**	**0.14**
Income statement			
A) Production revenue	149.17	0.88	0.00
B) Production costs	(148.85)	(0.74)	0.00
Difference between operating revenue and operating exp	0.31	0.14	0.00
C Financial income (expense)	0.06	(0.00)	0.00
D) Adjustments to financial assets	0.00	0.00	0.00
Profit (loss) before tax	**0.37**	**0.14**	**0.00**
Income tax for the year	(0.23)	(0.04)	(0.00)
Net profit (loss) for the year	**0.14**	**0.10**	**(0.00)**

ANNEX 5

Summary figures of the most recently approved financial statements of direct subsidiaries in the Cairo Editore publishing segment, TV publishing La7, RCS and network operator (31 December 2017).

(€ millions)	**Cairo Editore** Financial statements at 31.12.17	**Rcs MediaGroup** Financial statements at 31.12.17	**Cairo Publishing** Financial statements at 31.12.17	**LA7** Financial statements at 31.12.17	**Cairo Network** Financial statements at 31.12.17
Assets					
A) Share capital proceeds to be received	0.00	0.00	0.00	0.00	0.00
B) Intangible fixed assets	8.21	37.48	0.00	18.41	35.27
Tangible fixed assets	1.98	45.71	0.01	1.56	0.00
Investment property	0.00	2.76	0.00	0.00	0.00
Financial fixed assets	0.05	472.02	0.00	0.19	0.00
Total non-current assets	**10.24**	**557.96**	**0.01**	**20.17**	**35.27**
C) Inventory	2.05	10.65	0.07	0.28	0.00
Receivables	28.43	186.28	1.75	63.70	9.72
Current financial assets	0.00	270.33	0.00	0.02	0.00
Cash and cash equivalents	5.85	0.68	0.15	93.47	0.09
Total current assets	**36.33**	**467.95**	**1.97**	**157.46**	**9.81**
D) Prepayments and accrued income	0.78	6.21	0.00	0.66	0.00
Capital invested in assets held for sale					
Total assets	**47.34**	**1,032.12**	**1.98**	**178.29**	**45.08**
Liabilities					
A) Share capital	1.04	475.13	0.01	1.02	5.50
Income-related and other reserves	1.02	101.29	0.01	93.06	0.00
Shareholders' contributions	0.00	0.00	0.13	0.00	0.00
Retained earnings (losses carried forward)	0.00	(219.96)	0.00	0.04	(0.15)
Net profit (loss) for the year	7.13	53.69	(0.21)	(5.30)	(1.29)
Total equity	**9.20**	**410.16**	**(0.06)**	**88.81**	**4.05**
B) Provisions for risks and charges	1.20	34.35	0.33	6.05	0.00
C) Post-employment benefits	1.96	31.69	0.22	7.31	0.02
D) Payables	34.86	548.45	1.48	75.74	41.00
E) Accrued expenses and deferred income	0.12	7.47	0.00	0.39	0.00
Total liabilities	**47.34**	**1,032.12**	**1.98**	**178.29**	**45.07**
Income statement					
A) Production revenue	92.04	500.13	1.36	101.40	8.00
B) Production costs	(81.62)	(458.27)	(1.57)	(109.16)	(9.64)
Difference between operating revenue and operating expense	10.42	41.86	(0.21)	(7.76)	(1.64)
C Financial income (expense)	0.00	(8.10)	(0.00)	0.32	(0.06)
D) Adjustments to financial assets	(0.01)	28.64	0.00	(0.01)	0.00
Profit (loss) before tax	**10.41**	**62.40**	**(0.21)**	**(7.45)**	**(1.70)**
Income tax for the year	(3.28)	(8.71)	(0.00)	2.15	0.41
Net profit (loss) for the year	**7.13**	**53.69**	**(0.21)**	**(5.30)**	**(1.29)**

Appendix

Information pursuant to Article 149-duodecies of CONSOB Issuer Regulations

The following summary, prepared pursuant to art. 149-xii of CONSOB Issuer Regulations, shows the fees for the current period for auditing and other services provided by the Independent Auditors.

(€ millions)	Services provided by	Fees for the year
Audit		
Parent - Cairo Communication S.p.A.	KPMG S.p.A.	0.1
Subsidiaries - excluding RCS MediaGroup and subsidiaries	KPMG S.p.A.	0.2
Other services		-
Parent - Cairo Communication S.p.A. (**)	KPMG (*)	0.1
Subsidiaries (***)	KPMG (*)	0.1
Total		**0.5**

(*) Other companies included in the network of KPMG S.p.A.
(**) Risk assessment services, methodological support and assistance to Management in updating the mapping of corporate risks and in testing activities under Law 262/05 and related gap analysis, methodological support and assistance to Management in the reporting of non-financial information. Other services include the limited audit of the Consolidated Non-Financial Statement of the Cairo Communication Group.
(***) Risk assessment and gap analysis services as part of the process of updating the Model pursuant to Legislative Decree 231/01, assistance to Management in testing activities under Law 262/05 and related gap analysis, methodological support and assistance to Management in the reporting of non-financial information.

Auditing and other services to RCS MediaGroup and its subsidiaries are provided by the Independent Auditors Deloitte & Touche S.p.A. as shown in the table below:

(€ millions)	Services provided by	Fees for the year
Audit		
RCS MediaGroup S.p.A.	Deloitte & Touche S.p.A.	0.4
Subsidiaries	Deloitte & Touche S.p.A.	0.5
Other services (*)		-
RCS MediaGroup S.p.A.	Deloitte & Touche S.p.A.	0.0
Subsidiaries	Deloitte & Touche S.p.A.	0.0
Total		**0.9**

(*) These include certification services relating to the Consolidated Non-Financial Statement of RCS MediaGroup (Euro 19 thousand); and other consulting services provided to a Spanish subsidiary of RCS MediaGroup (Euro 26 thousand).

CERTIFICATION OF THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED

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 no. 58 of 24 February 1998, certify:

• the adequacy of the characteristics of the Company and

• the effective application of administrative and accounting procedures for the preparation of the 2018 separate financial statements.

2. We also certify that:

2.1 the separate financial statements at 31 December 2018:

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.

2.2 the Directors' Report contains a reliable analysis on performance and operating results, as well as on the position of the Issuer, together with a description of the principal risks and uncertainties it is exposed to.

Milan, 26 March 2019

For the Board of Directors Chairman	Financial Reporting Manager
………………………………………….	……………………………………………
(Urbano Roberto Cairo)	(Marco Pompignoli)

KPMG S.p.A.
Revisione e organizzazione contabile
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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
Cairo Communication S.p.A.

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of Cairo Communication S.p.A. (the "Company"), which comprise the income statement at 31 December 2018, the statements of comprehensive income, financial position, cash flows and changes in equity for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of Cairo Communication S.p.A. as at 31 December 2018 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the separate financial statements*" section of our report. We are independent of the Company in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

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Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of the investment in the subsidiary RCS MediaGroup S.p.A.

Notes to the separate financial statements: Note 11 "Investments"

Key audit matter	Audit procedures addressing the key audit matter
The separate financial statements at 31 December 2018 include equity investments of €329.0 million, comprising the investment of €304.9 million in the subsidiary RCS MediaGroup S.p.A.. The Company tests the carrying amount of the investment for impairment annually and, in any case, whenever there are indicators of impairment, by comparing it with its estimated recoverable amount. The Company calculated the recoverable amount of its investment in the subsidiary RCS MediaGroup S.p.A. by estimating its value in use, using a method that discounts its expected cash flows. The model is very complex and entails the use of estimates which, by their very nature, are uncertain and subjective, about: — the expected cash flows, calculated by taking into account the general economic performance and that of the Company's sector, the actual cash flows for past years and the projected growth rates; — the financial parameters used to calculate the discount rate. For the above reasons and considering the materiality of the caption, we believe that the measurement of the investment in the subsidiary RCS MediaGroup S.p.A. is a key audit matter.	Our audit procedures included: — understanding the process adopted for impairment testing approved by the Company's board of directors; — understanding the process adopted to prepare the forecasts from which the expected cash flows used for impairment testing have been derived; — analysing the reasonableness of the assumptions used to prepare the forecasts; — checking any discrepancies between the previous year forecast and actual figures, in order to check the accuracy of the estimation process; — comparing the expected cash flows used for impairment testing to those forecast in the business plans and analysing the reasonableness of any discrepancies; — involving experts of the KPMG network in the assessment of the reasonableness of the impairment testing model and related assumptions, including by means of a comparison with external data and information; — checking the sensitivity analysis presented in the notes in relation to the key assumptions used for impairment testing; — assessing the appropriateness of the disclosures provided in the notes about the recoverability of the investment in the subsidiary RCS MediaGroup S.p.A..

Responsibilities of the Company's directors and board of statutory auditors ("Collegio Sindacale") for the separate financial statements

The directors are responsible for the preparation of separate 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 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the Company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the Company's financial reporting process.

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report

to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 28 April 2011, the Company's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2011 to 31 December 2019.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The Company's directors are responsible for the preparation of the directors' report and report on corporate governance and ownership structure at 31 December 2018 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the

Company's separate financial statements at 31 December 2018 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the Company's separate financial statements at 31 December 2018 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 29 March 2019

KPMG S.p.A.

(signed on the original)

Francesco Cuzzola
Director of Audit

Report of the Board of Statutory Auditors
to the Shareholders' Meeting of Cairo Communication S.p.A.
pursuant to art. 153 of Legislative Decree no. 58 of 24 February 1998

Shareholders,

the Board of Statutory Auditors, pursuant to art. 153 of Legislative Decree 58/1998, is called upon to report to the Shareholders' Meeting on the supervisory activity performed and on any omissions or reprehensible facts found. The Board of Statutory Auditors may also put forward observations and proposals regarding the financial statements, their approval and the matters within its responsibilities.

During the year ended 31 December 2018, we performed the supervisory activity prescribed by law, taking into account the standards of conduct recommended by the Italian Association of Public Accountants and Accounting Professionals, and the relevant instructions provided by CONSOB communications concerning corporate control and the activities of the Board.

The above being stated, these are the results of the prescribed supervisory activity performed by the Board of Statutory Auditors during the year:

- we monitored the observance of the law and of the Bylaws;
- we attended the Shareholders' Meetings and those of the Board of Directors held during the year, receiving from the Directors, in accordance with their obligations to report to the Board of Statutory Auditors, under art. 150, par. 1, of Legislative Decree no. 58/1998, timely and appropriate information on the overall business performance and outlook, and the most relevant transactions, in terms of size and nature, made by the Company and its subsidiaries;
- to the extent of our responsibilities, we gathered information on compliance with the law and the Bylaws, and oversaw compliance with the principles of proper governance and appropriateness of the Company's organizational structure, through direct observation, through information gathered from the managers of the departments involved, through regular exchange of information with the Independent Auditors tasked with the statutory audit, by attending the meetings of the Control and

Risk Committee, the Remuneration and Appointments Committee, the Related Party Committee and meetings with the Supervisory Body;

- we oversaw the operation and effectiveness of the internal control systems and the adequacy of the administrative-accounting system and, specifically, its reliability to properly illustrate operational events;
- as "Internal Control and Audit Committee" pursuant to art. 19 of Italian Legislative Decree no. 39/2010, we performed the supervisory activity prescribed therein with regard to: a) the financial reporting process; b) the effectiveness of the internal control and corporate risk management systems, as regards financial reporting, without violating its independence; c) the statutory audit of the financial statements and the consolidated financial statements; d) the independence of the Independent Auditors as required by law, in particular as regards the adequacy of the provision of services other than auditing, in accordance with art. 5 of Regulation (EU) no. 537/2014. The Independent Auditors provided us with the Reports, pursuant to art. 14 of Legislative Decree no. 39/2010 and to art. 11 of Regulation (EU) no. 537/2014, as well as the certification of the "Annual Confirmation of Independence", pursuant to art. 6 of Regulation (EU) no. 537/2014. We analyzed, again pursuant to art. 6, the risks regarding the independence of the Independent Auditors and the measures it adopted to constrain such risks;
- we controlled the proper operation of the audit system on Group companies and the appropriateness of instructions given to them, pursuant also to art. 114, par. 2, of Legislative Decree no. 58/1998;
- we took note of the preparation of the Remuneration Report, pursuant to art. 123 *ter* of Legislative Decree 58/1998 and to art. 84 *quater* of CONSOB Regulations 11971/1999, with no particular issues to report;
- we controlled the actual implementation of corporate governance rules provided by the Corporate Governance Code for Listed Companies issued by Borsa Italiana S.p.A., as adopted by the Company;
- we oversaw compliance of the internal procedure referred to related-party transactions with the principles contained in the Regulations approved by CONSOB

through resolution no. 17221 of 12 March 2010 as subsequently amended, and compliance with the above Regulations, pursuant to art. 4, par. 6;

- we assessed compliance with the laws and regulations on the preparation and layout of the financial statements and consolidated financial statements, as well as the documents attached thereto. Specifically, the financial statements and consolidated financial statements are accompanied by the prescribed statements of conformity signed by the Chairman of the Board of Directors and by the Financial Reporting Manager, pursuant to art. 81-*ter* of CONSOB Regulations 11971/1999 as subsequently amended and supplemented;
- we assessed that the 2018 Directors' Report on Operations complies with the laws and regulations, consistent with the resolutions adopted by the Board of Directors and with the facts illustrated in the financial statements and consolidated financial statements. The half-year report and quarterly reports were published in accordance with the law and regulations currently in force and required no comments from the Board of Statutory Auditors;
- we assessed the absence of grounds for forfeiture of its members, pursuant to art. 148 TUF, as well as the continued validity of the independence requirements, pursuant to par. 3 of the above article and to the Application Criterion 8.C.1 of the Corporate Governance Code for Listed Companies;
- we oversaw, to the extent of our responsibilities, compliance with the provisions of art. 3, par. 7, of Legislative Decree no. 254 of 30 December 2016, with regard to the "Consolidated Non-Financial Statement". The Board of Directors has appointed KPMG S.p.A., the entity in charge of the statutory audit, to perform the tasks set out in art. 4, par. 10, of the decree, which issued a statement on the compliance of the information presented with the requirements of articles 3 and 4 of the above decree.

The specific indications to provide with this Report are listed below, in accordance with the provisions of CONSOB Communication no. DEM/1025564 of 6 April 2001 as subsequently amended:

1. We gathered information on the transactions having a significant impact on the balance sheet, income statement and cash flows carried out during the year, also through subsidiaries, to verify that they were made in compliance with the law and

the Bylaws and that they were neither imprudent or such as to jeopardize the integrity of corporate assets.

2. In performing its duties, the Board did not identify any atypical and/or unusual transactions made during the year with third, intra-group or related parties.

   The procedures adopted by the Company for related party transactions are illustrated in section 12 of the "Report on Corporate Governance and Ownership Structure" approved by the Board of Directors on 26 March 2019.

   The characteristics of intra-group and related party transactions put in place in 2018, the parties involved and the relating financial effects are appropriately presented and explained in a specific section in the notes to the financial statements and consolidated financial statements, to which reference is made.

   Pursuant to art. 4, par. 6 of the CONSOB Regulations approved by the above resolution no. 17221/2010, which governs the decision-making process and the mandatory information regarding Related-Party Transactions, we oversaw:

   i) compliance of the procedures adopted by the Company with the principles contained in the above regulations and their observance;
   ii) fairness and correspondence of intra-group and related-party transactions with the interests of the Company.

3. In our view, the information provided by the Directors in their Report on Operations, regarding atypical and/or unusual transactions and ordinary transactions, under the previous point, is to be considered exhaustive and complete.

4. KPMG S.p.A., the Independent Auditors tasked with performing the statutory audit, with which we held regular meetings during the year, today issued the Reports under art. 14 of Legislative Decree no. 39/2010, certifying that the financial statements and consolidated financial statements for the year ended 31 December 2018 give a true and fair view of assets, liabilities, financial position, results of operations and cash flows, and that the Directors’ Report and the disclosures under art. 123-*bis*, par. 4, of Legislative Decree no. 58/1998 are consistent with the financial statements of the Company and with the consolidated financial statements of the Group, and have been drawn up in accordance with the law. These reports do not contain any issues of note or explanatory comments.

5. In 2018, no complaints were received pursuant to art. 2408 of the Italian Civil Code, nor were complaints made by third parties.

6. During the year, the Company assigned KPMG S.p.A. the task of performing a limited audit of the Consolidated Non-Financial Statement, for the amount of Euro 20,000. Additional tasks were assigned to subjects that are part of the "network" of KPMG S.p.A. for non-statutory audit services for a total of Euro 170,300. Where necessary, the Board of Statutory Auditors issued its authorization, pursuant to art. 5 of Regulation (EU) No. 537/2014.

7. In 2018, the Board issued its opinion as prescribed by law on the determination of compensation to key management personnel, as established by the Board of Directors on the proposal of the Remuneration and Appointments Committee.

8. In 2018, the Board of Directors met five times, the Control and Risk Committee five times, the Remuneration and Appointments Committee three times, the Related Party Committee two times and the Board of Statutory Auditors eight times. The Board of Statutory Auditors acquired knowledge and oversaw compliance with the law and the Bylaws and observance of the principles of proper governance, ensuring that actions decided and taken by the Directors complied with the law and the Bylaws, and were made in a perspective of profitability, and that they were neither imprudent nor reckless, or in potential conflict of interest or in contrast with the resolutions adopted by the Shareholders' Meeting, or such as to jeopardize the integrity of corporate assets.

9. With regard to the adequacy of the organizational structure of the Company and of the Group, the supervisory duties of the Board of Statutory Auditors were performed by acquiring knowledge of the organizational structure through information gathered from each area, through meetings with the managers of the various departments and with the Independent Auditors as part of a regular exchange of data and information.

10. The Board acquired knowledge and oversaw the adequacy and effectiveness of the internal control system, pursuant also to art. 19 of Legislative Decree 39/2010, through regular meetings with the Director in charge of the internal control system and by attending the meetings of the Control and Risk Committee, the

Remuneration and Appointments Committee, the Related Party Committee, and the meetings with the Supervisory Body on Model 231/2001.

11. The Board also oversaw the adequacy and reliability of the administrative-accounting system to properly illustrate operational events, through direct observation, through information received by the managers of the departments involved, by examining company documents and by analyzing the results of the work performed by the Independent Auditors.
12. The Board controlled the operation of the internal control system over subsidiaries and the adequacy of the instructions given to the subsidiaries by the Company, pursuant to art. 114, par. 2, of Legislative Decree no. 58/98, in order for the Group companies to provide the required information to comply with statutory disclosure obligations. No exceptions were reported in this regard.
13. During the regular meetings held by the Board of Statutory Auditors with the Independent Auditors, pursuant to art. 150, paragraph 3, of Legislative Decree no. 58/1998, no significant issues emerged that need to be specifically mentioned in this Report.
14. The Board also controlled the actual implementation of corporate governance rules provided by the Corporate Governance Code for Listed Companies issued by Borsa Italiana S.p.A., as adopted by the Company.
15. With regard to the supervisory activity performed as mentioned above, there were no omissions, reprehensible facts or irregularities reportable to the competent authorities and/or the supervisory boards, or worthy of mention in this Report.
16. To conclude, the Board of Statutory Auditors performed its own assessments on compliance with the rules of law regarding the preparation of the draft financial statements and consolidated financial statements of the Group for the year ended 31 December 2018, of the relating explanatory notes and the Directors' Report attached thereto, either directly, assisted by department managers or through information received from the Independent Auditors.

Based on all the foregoing considerations, with regard to the supervisory activity performed during the year, the Board of Statutory Auditors has no particular remarks to

make, pursuant to art. 153 of Legislative Decree no. 58/1998, and does not identify, within the sphere of its responsibilities, any reasons to impede the approval of the financial statements for the year ended 31 December 2018, agreeing with the proposal of the Board of Directors on the allocation of profit for the year.

Milan, 29 March 2019

For the Board of Statutory Auditors

Michele Paolillo - Chairman