



**CAIRO COMMUNICATION**

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## **Interim Management Statement at 31 March 2019**

**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**



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## Governance

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### Board of Directors

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

### Control and Risk Committee

<b>Paola Mignani</b>	Director
<b>Daniela Bartoli</b>	Director
<b>Massimo Ferrari</b>	Director

### Remuneration and Appointments Committee

<b>Marella Caramazza</b>	Director
<b>Daniela Bartoli</b>	Director
<b>Giuseppe Brambilla di Civesio</b>	Director

### Related Party Committee

<b>Massimo Ferrari</b>	Director
<b>Marella Caramazza</b>	Director
<b>Paola Mignani</b>	Director

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### Board of Statutory Auditors

<b>Michele Paolillo</b>	Chairman
<b>Marco Moroni</b>	Standing Auditor
<b>Gloria Marino</b>	Standing Auditor
<b>Laura Guazzoni</b>	Alternate Auditor
<b>Domenico Fava</b>	Alternate Auditor

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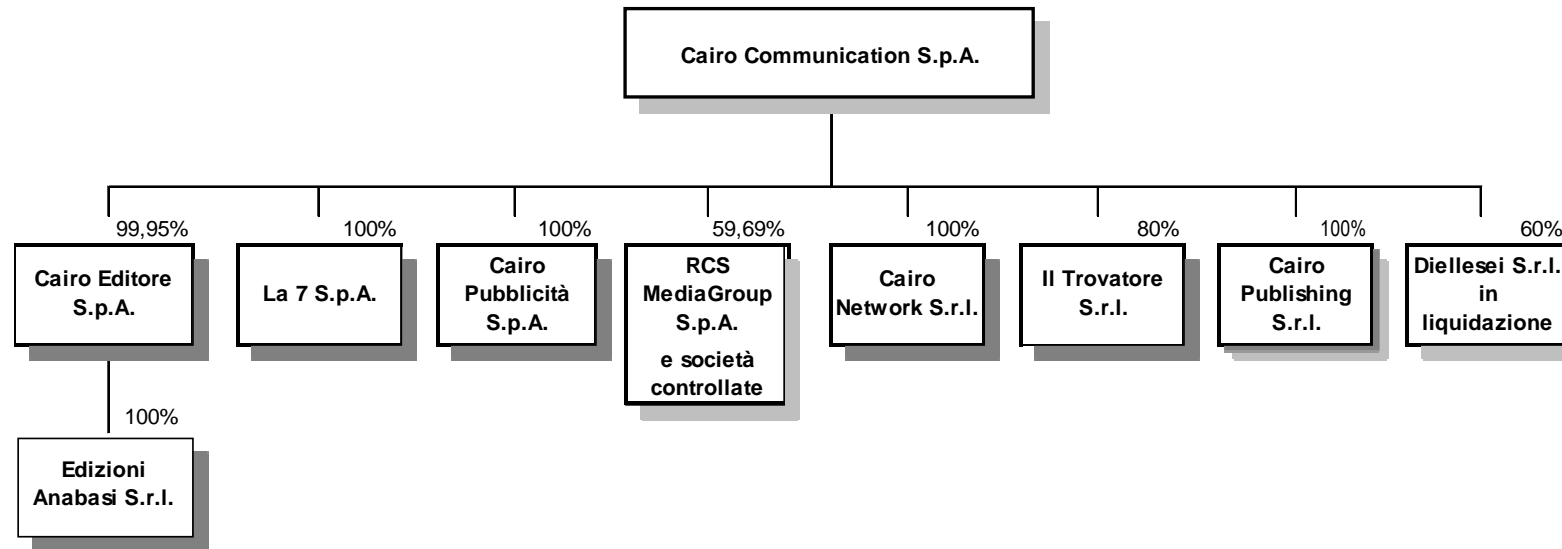
### Independent Auditors

**KPMG S.p.A.**

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



## The Group at 31 March 2019





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## ***1. Valuation principles and criteria adopted in preparing the Interim Management Statement at 31 March 2019***

The financial statements in this Interim Management Statement have been prepared following the reclassified statements usually adopted for the “Directors’ Report on Operations” and in accordance with international accounting standards. The provisions of the international accounting standard on interim financial reporting (IAS 34 “Interim Financial Reporting”) are not applied.

The Interim Management Statement at 31 March 2019 has been prepared in accordance with the requirements set out in Borsa Italiana Notice no. 7587 of 21 April 2016: “*STAR Issuers: information on interim management statements*”.

The consolidated income statement figures in first quarter 2019 are shown versus first quarter 2018. Statement of financial position and equity figures appearing in the financial statements are compared with the figures of the consolidated financial statements at 31 December 2018.

The quarterly financial statements at 31 March 2019, as for those at 31 March 2018, have been prepared net of tax and tax effects.

In first quarter 2019, there were no changes to the scope of consolidation from the consolidated financial statements for the year ended 31 December 2018.

With respect to the 2018 Annual Report and the figures at 31 March 2018 shown for comparative purposes, the Interim Management Statement at 31 March 2019 incorporates the new IFRS 16 - *Leases*, which came into force as from 1 January 2019.

The new standard establishes a 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 contracts to which it applies - for the recognition of the right of use of the underlying asset in the assets in the statement of financial position with a balancing entry in financial liabilities. The standard provides the possibility of not recognizing as leases those contracts that involve low-value assets (assets with a value of less than USD 5 thousand) and leases with a term equal to or less than 12 months.

For the adoption of the new standard, the Group applied the modified retrospective transition method (i.e. with the cumulative effect of the adoption recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, without restating comparative information).

For lease contracts previously classified as operating leases, the following have been accounted for:



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- 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 (IBR) applicable at the transition date;
  - a right of use generally equal to the amount of the financial liability at the transition date (except in cases where the cherry picking accounting treatment described below applies).

For a small number of property rental contracts - as an exception to the transition method generally applied by the Group - the right of use has been valued by applying discounting from the effective date of the contracts, with the same IBR used in calculating the financial liability. This accounting treatment (known as cherry picking) at 1 January 2019 resulted in 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 of approximately Euro 15.2 million gross of the accounting effect of the tax component (Euro 11.1 million the net effect).

Overall, the application of the new standard at 31 March 2019 resulted in:

- the recognition under property, plant and equipment of rights of use for a total of Euro 200.9 million;
- the recognition of a financial liability (financial payables from operating leases pursuant to IFRS 16), calculated as described above, of approximately Euro 216.5 million;
- with regard to the income statement, an improvement in gross operating profit (EBITDA) of Euro 7.5 million in the quarter, resulting from the reversal of lease payments, offset by higher amortization and depreciation of Euro 6.4 million and higher financial expense of Euro 1.1 million, with an impact on gross operating profit (EBITDA), operating profit (EBIT) and profit attributable to the owners of the parent in the period of Euro +7.5 million, Euro +1.1 million and Euro 0 million;
- a decreasing impact (i) on Group equity of Euro 6.7 million and (ii) on non-controlling interests' equity of Euro 4.4 million, due to the above "cherry picking" for a small number of property leases.

The 2018 Annual Report contains an exhaustive description of the new standard and its effects at 1 January 2019 in "*Accounting standards, amendments and interpretations endorsed by the EU and applicable from financial periods beginning on 1 January 2019 - IFRS 16 – Leases*"

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 first consolidated financial statements of



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the Group, 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.

## ***2. Alternative performance measures***

In this Interim Management Statement, 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; until the presentation of the first consolidated financial statements for the year, which include the date of first-time application of IFRS 16, the statements may undergo thorough review in light of possible developments arising from the entry into force of IFRS 16.

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 **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 profit**

+ Amortization & depreciation

+ Bad debt impairment losses

+ Provisions for risks

+ Income (expense) on equity-accounted investees<sup>1</sup>

### **EBITDA – Operating profit, before amortization, depreciation, provisions 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.

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<sup>1</sup> Included following consolidation of RCS



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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 Interim Management Statement at 31 March 2019, consolidated EBITDA has been 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, excluding financial liabilities (current and non-current) from operating leases recognized in the financial statements pursuant to IFRS 16.

The **total net financial position (net financial debt)** also includes the financial liabilities from leases recorded in the financial statements pursuant to IFRS 16, previously classified as operating leases.

### ***3. Group performance***

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 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 first quarter 2019, the Group operated as a:

- publisher of magazines and books (Cairo Editore/Editoriale Giorgio Mondadori and Cairo Publishing);



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- 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 first quarter 2019, the general economic and financial climate continued to be marked by uncertainty.

The Italian economy showed a moderate recovery that interrupted the weak decline recorded in the two prior quarters. According to ISTAT preliminary estimates in first quarter 2019, GDP in Italy increased by 0.2% versus the prior quarter.

In Spain, a market of operation for RCS through its subsidiary Unidad Editorial, GDP grew by 0.7% in first quarter 2019, one-tenth of a percentage point more than in fourth quarter 2018. On an annual basis (12 mobile months), GDP increased by 2.4%, up from 2.3% in the prior quarter (*Instituto Nacional de Estadística - INE*), confirming an increase in GDP for the sixth consecutive year.

In Italy, in the first three months of 2019, the advertising market fell by 3.5% versus the same period of 2018, with the advertising markets for magazines, newspapers and TV down by 13.1%, 12.2% and 2.7%, while the online segment registered a 3% growth versus the same period in 2018 (*AC Nielsen*).

In Spain, the gross advertising sales market at 31 March 2019 rose by 0.5% versus the same period of 2018 (*i2p, Arce Media*). Specifically, the daily newspapers and magazines market fell by 6% and 11.8% versus the same period in 2018. Advertising sales on the Internet (excluding social media) drove the market and increased by 8.5%.

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

In terms of circulation, in Italy the unfavourable trend of the print products market also continued in first quarter 2019. Specifically, the main national generalist daily newspapers (with a circulation above 50 thousand copies) reported a 6.2% drop in circulation in first quarter 2019 (including digital copies), while the main sports newspapers fell by 8.7% (including digital copies) versus the same period of 2018 (ADS January-March 2019).





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The same trend was seen in Spain, with daily newspaper sales down versus the same period of 2018. Cumulative figures on circulation at March 2019 (*OJD*) regarding generalist newspapers (with a circulation above 60 thousand copies), business newspapers and sports newspapers indicate a drop of 13.8%, 8.4% and 9.6%.

In first quarter 2019:

- **RCS** continued to generate positive margins and cash flows and achieved its targets of gradually reducing its financial debt (Euro -29.4 million versus end 2018), thanks to the initiatives implemented to maintain and develop revenue and to the ongoing efficiency actions, which generated benefits of approximately Euro 5.6 million in the period. In first quarter 2019, RCS achieved a profit of Euro 4.9 million<sup>2</sup> (Euro 6 million<sup>2</sup> in the same period of 2018);
- the **TV publishing segment La7** continued to report increases in La7's audience (+5% in the all-day share and +4.4% in prime time versus the same period of 2018, when audience figures had already risen sharply versus 2017). Advertising sales on La7 and La7d, amounting to Euro 37.7 million, were equally on the rise, increasing by 4.9% versus the same period of 2018 (Euro 36 million);
- 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 own costs;
- the **scope of the Group companies excluding RCS** in the quarter basically confirmed gross operating profit.

In first quarter 2019, Group consolidated gross revenue amounted to approximately Euro 287.5 million (comprising gross operating revenue of Euro 280.1 million and other revenue and income of Euro 7.4 million) versus Euro 301.4 million in the same period of 2018 (comprising gross operating revenue of Euro 291.3 million and other revenue and income of Euro 10.1 million).

Mention should be made that this Interim Management Statement incorporates the new IFRS 16, which came into effect as from 1 January 2019. The income statement figures of first quarter

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<sup>2</sup> Amounts and comparisons based on the RCS Interim Management Statement at 31 March 2019, approved on 9 May 2019.



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2019, therefore, cannot be immediately compared with the corresponding amounts of the same period of the prior year.

Gross operating profit (EBITDA) and operating profit (EBIT) amounted to Euro 26.6 million and Euro 9.0 million. Net of the effects of the new IFRS 16, gross operating profit (EBITDA) and operating profit (EBIT) would be equal to Euro 19.1 million and Euro 7.9 million (Euro 25.1 million and Euro 10.1 million in the same period of 2018), down due also to the effect of net non-recurring expense and income (Euro -2.9 million the overall effect, being equal to Euro -0.7 million at 31 March 2019 versus Euro +2.2 million at 31 March 2018, the latter attributable mainly to non-recurring income of Euro 2.6 million from a settlement agreement).

Profit attributable to the owners of the parent came to approximately Euro 2.7 million (Euro 3.4 million in the same period of 2018).

Looking at the business segments, in first quarter 2019:

- in the **magazine publishing segment (Cairo Editore)**, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 0.9 million<sup>3</sup> and Euro 0.5 million<sup>3</sup> (Euro 1.7 million and Euro 1.4 million in the same period of 2018). Regarding weeklies, with approximately 1.4 million average copies sold in the January-March three-month period of 2019 (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 1.5 million;
- in the **TV publishing segment (La7)**, the Group achieved gross operating profit (EBITDA) of approximately Euro 1 million<sup>4</sup> (Euro -0.4 million in the same period of 2018). Given the characteristics of La7’s programming schedule and distribution of advertising revenue over the year, the first quarter usually has a higher percentage of costs incurred for in-house productions on revenue, compared to the rest of the year. Operating profit (EBIT) was approximately Euro -1.8 million<sup>4</sup> (Euro -2.9 million in the same period of 2018);

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<sup>3</sup> The new IFRS 16 resulted in an improvement of Euro 0.3 million in gross operating profit (EBITDA) of the Cairo Editore publishing segment, resulting from the reversal of lease payments, offset by higher amortization and depreciation of Euro 0.3 million (the impact on operating profit came basically to zero) and financial expense of approximately zero.

<sup>4</sup> The new IFRS 16 resulted in an improvement in gross operating profit (EBITDA) of the La7 TV segment of Euro 0.4 million, resulting from the reversal of lease payments, offset by higher amortization and depreciation of Euro 0.3 million (Euro 0.1 million the positive impact on operating profit) and higher financial expense of Euro 0.1 million.



- in the **network operator segment**, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 0.7 million<sup>5</sup> and Euro -0.1 million<sup>5</sup> (Euro 0.4 million and Euro -0.1 million in the same period of 2018);
- in the **advertising segment**, gross operating profit (EBITDA) and operating profit (EBIT) came both to Euro 0.9 million<sup>6</sup> (both Euro 1 million in the same period of 2018);
- in the **RCS segment**, in the consolidated financial statements of Cairo Communication, gross operating profit (EBITDA) and operating profit (EBIT) amounted to Euro 23.1 million<sup>7-8</sup> and Euro 9.4 million<sup>8</sup> (Euro 22.3 million and Euro 10.7 million in the same period of 2018). Moreover, RCS's seasonality factors generally impact on the results of the first and third quarters of the year. Net operating revenue amounted to Euro 206.2 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. With regard to the main digital performance indicators, in Italy *corriere.it* and *gazzetta.it* reached an average of 19.8 million and 10.7 million unique users respectively per month at end February 2019 (*Audiweb 2.0*). In March 2019, the total active customer base for *Corriere della Sera* (*digital edition, membership* and *m-site*) was 137 thousand subscribers, up by 22% versus the same period of 2018. In Spain, as part of the online activities, *elmundo.es*, *marca.com* and *expansion.com* reached 19.9 million, 16.0 million and 6.6 million average monthly unique users at end March 2019 (*Comscore IP Spain*, which considers only traffic coming from Spain). Against this backdrop, digital revenue, which totaled approximately Euro 38 million, increased by approximately 8% versus the same period of 2018, with a percentage on total revenue of 18.4%.

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<sup>5</sup> The new IFRS 16 resulted in an improvement in gross operating profit (EBITDA) of the network operator segment of Euro 0.3 million, resulting from the reversal of lease payments, offset by higher amortization and depreciation of Euro 0.2 million (Euro 0.1 million the positive impact on operating profit) and higher financial expense of Euro 0.1 million.

<sup>6</sup> The new IFRS 16 resulted in an improvement in gross operating profit (EBITDA) of the advertising segment of Euro 0.1 million, resulting from the reversal of lease payments, offset by higher amortization and depreciation of Euro 0.1 million (the impact on operating profit was basically zero) and by financial expense of approximately zero.

<sup>7</sup> 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 to Euro 0.5 million in first quarter 2019 - EBITDA shown in the RCS Interim Management Statement at 31 March 2019, approved on 9 May 2019, amounted to Euro 22.6 million.

<sup>8</sup> The new IFRS 16 resulted in an improvement in gross operating profit (EBITDA) of the RCS segment of Euro 6.5 million, resulting from the reversal of lease payments, offset by higher amortization and depreciation of Euro 5.5 million (Euro 1 million the positive impact on operating profit) and higher financial expense of Euro 0.9 million.



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In first quarter 2019, La7's average all-day share was 3.75%, up by 5% versus the same period of 2018, when the channel's audience had already increased strongly versus the prior year, and 4.96% in prime time (i.e. the time slot 20.30-22.30), increasing by 4.4% versus the same period of 2018, with a high-quality target audience. La7d's share was 0.49% (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 7.14% average share from Monday to Friday, *TgLa7 edizione delle 20* 5.85% from Monday to Friday, *diMartedì* 6.25%, *Piazzapulita* 5.63%, *Propaganda Live* 5.12%, *Non è l'Arena* 6.6%, *Omnibus Dibattito* 4.23%, *Coffee Break* 5.2%, *L'Aria che tira* 6.82%, *Tagadà* 3.52% and *Atlantide* 3%.

In first quarter 2019, La7 was firmly the sixth national network in prime time for average listeners, and in the first two months the fifth channel in front of Italia 1. In the entire morning slot (07.00-12.00) too, La7 achieved high ratings, with an average share of 4.38%, up by 1% versus the same period of 2018, ranking as fourth generalist channel in the quarter.

Excellent results were achieved on the web front, with over 3.9 million (+22% versus the same period of 2018) average monthly unique browsers on the La7 sites (*La7.it*, *TGla7.it*, *Sedanoallegro.it*) and the *TGla7* app.



The main **consolidated income statement figures** in first quarter 2019 can be compared as follows with those of first quarter 2018:

(€ millions)	31/03/2019	31/03/2018
Gross operating revenue	280.1	291.3
Advertising agency discounts	(16.0)	(16.5)
<b>Net operating revenue</b>	<b>264.1</b>	<b>274.8</b>
Change in inventory	0.7	(0.1)
Other revenue and income	7.4	10.1
<b>Total revenue</b>	<b>272.1</b>	<b>284.9</b>
Production costs	(161.5)	(180.1)
Personnel expense	(83.5)	(82.8)
Income (expense) from equity-accounted investees	0.1	0.8
Non-recurring income and expense	(0.7)	2.2
<b>Gross operating profit (EBITDA)</b>	<b>26.6</b>	<b>25.1</b>
Amortization, depreciation, provisions and impairment losses	(17.6)	(14.9)
<b>EBIT</b>	<b>9.0</b>	<b>10.1</b>
Other gains (losses) on financial assets/liabilities	-	-
Net financial income	(4.1)	(4.6)
<b>Profit (loss) before tax</b>	<b>4.9</b>	<b>5.6</b>
Income tax	(0.2)	(0.1)
Non-controlling interests	(1.9)	(2.3)
<b>Profit from continuing operations attributable to the owners of the parent</b>	<b>2.7</b>	<b>3.2</b>
Profit (loss) from discontinued operations	-	0.2
<b>Profit attributable to the owners of the parent</b>	<b>2.7</b>	<b>3.4</b>

In first quarter 2019, consolidated gross revenue amounted to approximately Euro 287.5 million (comprising gross operating revenue of Euro 280.1 million and other revenue and income of Euro 7.4 million) versus Euro 301.4 million in first quarter 2018 (comprising gross operating revenue of Euro 291.3 million and other revenue and income of Euro 10.1 million).

Mention should be made that this Interim Management Statement incorporates the new IFRS 16, which came into effect as from 1 January 2019. The income statement figures of first quarter 2019, therefore, cannot be immediately compared with the corresponding amounts of the same period of the prior year.

Consolidated gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro 26.6 million and Euro 9.0 million (Euro 25.1 million and Euro 10.1 million in the same period of 2018).



If the new IFRS 16 had not been applied, gross operating profit(EBITDA) and operating profit (EBIT) for the first three months of 2019 would have decreased on a like-for-like basis by Euro 6.0 million and Euro 2.2 million versus the first three months of 2018, due also to the effect of net non-recurring expense and income (overall effect Euro -2.9 million as it amounts to Euro -0.7 million at 31 March 2019 versus Euro +2.2 million at 31 March 2018).

In first quarter 2019, 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 0.2 million (Euro 0.5 million in the same period of 2018), 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 0.5 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	31 March 2019	31 March 2018
<b>Profit for the period</b>	<b>4.7</b>	<b>5.7</b>
<i>Reclassifiable items of the comprehensive income statement</i>		
Gains (losses) on cash flow hedges	(0.3)	(0.5)
Reclassification of gains (losses) on cash flow hedges	0.1	0.4
Tax effect	0.0	-
<b>Total comprehensive income for the period</b>	<b>4.6</b>	<b>5.6</b>
- Owners of the parent	2.6	3.3
- Non-controlling interests - continuing operations	2.0	2.3
	<b>4.6</b>	<b>5.6</b>



The Group's performance can be read better by analyzing the results in first quarter 2019 by **main business segment** (magazine publishing Cairo Editore, advertising, TV publishing La7, network operator Cairo Network, Il Trovatore and RCS) versus those of the same period of 2018:

2019	Magazine publishing Cairo Editore	Advertising	TV publishing La7	Network operator Cairo Network	RCS	Trovatore	Intra and unallocate	Total
(€ millions)								
Gross operating revenue	23.1	44.2	26.7	3.0	216.2	0.2	(33.4)	280.1
Advertising agency discounts	-	(6.2)	-	-	(10.1)	-	0.2	(16.0)
<b>Net operating revenue</b>	<b>23.1</b>	<b>38.0</b>	<b>26.7</b>	<b>3.0</b>	<b>206.2</b>	<b>0.2</b>	<b>(33.2)</b>	<b>264.1</b>
Change in inventory	(0.0)	-	-	-	0.7	-	-	0.7
Other revenue and income	0.8	0.0	1.4	0.0	5.4	-	(0.3)	7.4
<b>Total revenue</b>	<b>23.9</b>	<b>38.1</b>	<b>28.2</b>	<b>3.0</b>	<b>212.3</b>	<b>0.2</b>	<b>(33.5)</b>	<b>272.1</b>
Production costs	(18.4)	(35.0)	(17.7)	(2.3)	(121.5)	(0.2)	33.5	(161.5)
Personnel expense	(4.6)	(2.2)	(9.5)	(0.0)	(67.1)	(0.0)	-	(83.5)
Income (expense) from equity-accounted investees	-	-	-	-	0.1	-	-	0.1
Non-recurring income (expense)	-	-	-	-	(0.7)	-	-	(0.7)
<b>Gross operating profit (EBITDA)</b>	<b>0.9</b>	<b>0.9</b>	<b>1.0</b>	<b>0.7</b>	<b>23.1</b>	<b>0.0</b>	<b>-</b>	<b>26.6</b>
Amortization, depreciation, provisions and impairment losses	(0.4)	(0.0)	(2.8)	(0.8)	(13.7)	0.0	-	(17.6)
<b>EBIT</b>	<b>0.5</b>	<b>0.9</b>	<b>(1.8)</b>	<b>(0.1)</b>	<b>9.4</b>	<b>0.0</b>	<b>-</b>	<b>9.0</b>
Other gains (losses) on financial assets/liabilities	-	-	-	-	-	-	-	-
Net financial income	0.0	(0.1)	(0.0)	(0.1)	(3.9)	(0.0)	-	(4.1)
<b>Profit (loss) before tax</b>	<b>0.5</b>	<b>0.8</b>	<b>(1.8)</b>	<b>(0.2)</b>	<b>5.5</b>	<b>0.0</b>	<b>-</b>	<b>4.9</b>
Income tax	(0.0)	(0.2)	0.9	0.0	(0.9)	(0.0)	-	(0.2)
Non-controlling interests	-	-	-	-	(1.9)	(0.0)	-	(1.9)
<b>Profit (loss) from continuing operations</b>	<b>0.5</b>	<b>0.6</b>	<b>(0.9)</b>	<b>(0.2)</b>	<b>2.7</b>	<b>0.0</b>	<b>-</b>	<b>2.7</b>
Profit (loss) from discontinued operations	-	-	-	-	-	-	(0.0)	(0.0)
<b>Profit (loss) attributable to the owners of the parent</b>	<b>0.5</b>	<b>0.6</b>	<b>(0.9)</b>	<b>(0.2)</b>	<b>2.7</b>	<b>0.0</b>	<b>(0.0)</b>	<b>2.7</b>

The new IFRS 16 resulted in:

- **Cairo Editore publishing segment:** an improvement in gross operating profit (EBITDA) of Euro 0.3 million, resulting from the reversal of lease payments, offset by higher amortization and depreciation of Euro 0.3 million (impact on operating profit basically equal to zero) and financial expense of approximately zero;
- **La7 TV segment:** an improvement in gross operating profit (EBITDA) of Euro 0.4 million, resulting from the reversal of lease payments, offset by higher amortization and depreciation of Euro 0.3 million (Euro 0.1 million the positive impact on operating profit) and higher financial expense of Euro 0.1 million;
- **network operator segment:** an improvement in gross operating profit (EBITDA) of Euro 0.3 million, resulting from the reversal of lease payments, offset by higher amortization and depreciation of Euro 0.2 million (Euro 0.1 million the positive impact on operating profit) and higher financial expense of Euro 0.1 million;
- **advertising segment:** an improvement in gross operating profit (EBITDA) of Euro 0.1 million, resulting from the reversal of lease payments, offset by higher amortization and depreciation of Euro 0.1 million (the impact on operating profit was basically zero) and financial expense of approximately zero;
- **RCS segment:** an improvement in gross operating profit (EBITDA) of Euro 6.5 million, resulting from the reversal of lease payments, offset by higher amortization and depreciation of Euro 5.5 million (Euro 1 million the positive impact on operating profit) and higher financial expense of Euro 0.9 million.



2018	Magazine publishing	Advertising	TV publishing	Network operator	RCS	Trovatore	Intra and unallocate	Total
(€ millions)	Cairo Editore		La7	Cairo Network				
Gross operating revenue	25.6	42.8	25.5	3.0	226.9	0.2	(32.6)	291.3
Advertising agency discounts	-	(6.0)	-	-	(10.6)	-	0.1	(16.5)
<b>Net operating revenue</b>	<b>25.6</b>	<b>36.8</b>	<b>25.5</b>	<b>3.0</b>	<b>216.3</b>	<b>0.2</b>	<b>(32.5)</b>	<b>274.8</b>
Change in inventory	(0.0)	-	-	-	(0.0)	-	-	(0.1)
Other revenue and income	0.4	0.1	2.1	0.0	7.5	-	-	10.1
<b>Total revenue</b>	<b>25.9</b>	<b>37.0</b>	<b>27.6</b>	<b>3.0</b>	<b>223.7</b>	<b>0.2</b>	<b>(32.5)</b>	<b>284.9</b>
Production costs	(19.2)	(33.8)	(18.8)	(2.6)	(138.0)	(0.2)	32.5	(180.1)
Personnel expense	(5.0)	(2.1)	(9.2)	(0.0)	(66.4)	(0.0)	-	(82.8)
Income (expense) from equity-accounted investees	-	-	-	-	0.8	-	-	0.8
Non-recurring income (expense)	-	-	-	-	2.2	-	-	2.2
<b>Gross operating profit (EBIIDA)</b>	<b>1.7</b>	<b>1.0</b>	<b>(0.4)</b>	<b>0.4</b>	<b>22.3</b>	<b>0.0</b>	<b>-</b>	<b>25.1</b>
Amortization, depreciation, provisions and impairment losses	(0.2)	(0.0)	(2.4)	(0.6)	(11.6)	0.0	-	(14.9)
<b>EBIT</b>	<b>1.4</b>	<b>1.0</b>	<b>(2.9)</b>	<b>(0.1)</b>	<b>10.7</b>	<b>0.0</b>	<b>-</b>	<b>10.1</b>
Other gains (losses) on financial assets/liabilities	-	-	-	-	0.0	-	-	0.0
Net financial income	(0.0)	(0.1)	(0.1)	(0.0)	(4.4)	(0.0)	-	(4.6)
<b>Profit (loss) before tax</b>	<b>1.4</b>	<b>0.9</b>	<b>(2.9)</b>	<b>(0.2)</b>	<b>6.4</b>	<b>0.0</b>	<b>-</b>	<b>5.6</b>
Income tax	(0.5)	(0.3)	1.3	0.0	(0.6)	(0.0)	-	(0.1)
Non-controlling interests	-	-	-	-	(2.3)	(0.0)	-	(2.3)
<b>Profit (loss) from continuing operations</b>	<b>1.0</b>	<b>0.6</b>	<b>(1.7)</b>	<b>(0.1)</b>	<b>3.4</b>	<b>0.0</b>	<b>-</b>	<b>3.2</b>
Profit (loss) from discontinued operations	-	-	-	-	-	-	0.2	0.2
<b>Profit (loss) attributable to the owners of the parent</b>	<b>1.0</b>	<b>0.6</b>	<b>(1.7)</b>	<b>(0.1)</b>	<b>3.4</b>	<b>0.0</b>	<b>0.2</b>	<b>3.4</b>

The main consolidated statement of financial position figures at 31 March 2019 can be analyzed versus the situation at 31 December 2018:

(€ millions)	31/03/2019	31/12/2018
<b>Statement of financial position</b>		
Property, plant and equipment	288.1	89.6
Intangible assets	989.7	994.0
Financial assets	58.5	58.4
Deferred tax assets	108.0	103.0
Net working capital	(85.7)	(54.2)
<b>Total assets</b>	<b>1,358.6</b>	<b>1,190.8</b>
Non-current liabilities and provisions	109.8	113.2
Deferred tax provision	165.8	165.3
(Net financial position)/Net debt	149.6	188.6
Financial payables from operating leases pursuant to IFRS 16	216.5	n/a
Equity attributable to the owners of the parent	432.7	436.8
Equity attributable to non-controlling interests	284.2	286.9
<b>Total equity and liabilities</b>	<b>1,358.6</b>	<b>1,190.8</b>

The application of the new IFRS standard at 31 March 2019 also resulted in (i) the recognition of rights of use under property, plant and equipment for a total of Euro 200.9 million and a financial liability (financial payables from operating leases pursuant to IFRS 16) of approximately Euro 216.5 million and (ii) a decrease on Group equity of Euro 6.7 million and on non-controlling interests' equity of Euro 4.4 million, net of the accounting effects of the tax component.





It should be noted that:

- the Shareholders' Meeting of RCS on 2 May 2019 approved the distribution of a dividend of Euro 0.06 per share, gross of tax, with ex-dividend date on 20 May 2019, for a total of approximately Euro 31 million (Euro 18.6 million the share of Cairo Communication),
- the Shareholders' Meeting of Cairo Communication on 3 May 2019 approved the distribution of a dividend of Euro 0.14 per share, gross of tax, with ex-dividend date on 27 May 2019, for a total of approximately Euro 18.8 million.

The change in net financial debt as a result of the distribution of dividends will be approximately Euro 31.2 million at Group level.

In 2019, as part of the share buy-back plans, no treasury shares were sold or purchased. At 31 March 2019, 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 debt** at 31 March 2019, versus the consolidated financial statement amounts at 31 December 2018, is summarized in the table below:

<b>Net financial debt</b> (€ millions)	<b>31/03/2019</b>	<b>31/12/2018</b>	<b>Changes</b>
Cash and cash equivalents	63.8	56.2	7.6
Other current financial assets and financial receivables	2.6	1.7	0.9
Current financial assets (liabilities) from derivative instruments	0.1	(0.1)	0.2
Current financial payables	(78.0)	(63.8)	(14.2)
<b>Current net financial position (net financial debt)</b>	<b>(11.5)</b>	<b>(6.0)</b>	<b>(5.5)</b>
Non-current financial payables	(136.9)	(181.6)	44.7
Non-current financial assets (liabilities) from derivative instruments	(1.2)	(1.0)	(0.2)
<b>Non-current net financial position (net financial debt)</b>	<b>(138.1)</b>	<b>(182.6)</b>	<b>44.5</b>
<b>Net financial position (net financial debt)</b>	<b>(149.6)</b>	<b>(188.6)</b>	<b>39.0</b>

**Consolidated net financial debt** at 31 March 2019 amounted to approximately Euro 149.6 million (Euro 188.6 million at 31 December 2018), Euro 158.2 million of which referring to RCS



(Euro 187.6 million at 31 December 2018). The improvement in the net financial debt of Euro 39 million is attributable mainly to cash flows from ordinary operations, comprising the dynamics of current assets, offset by outlays for capital expenditure and net non-recurring expense (approximately Euro 0.6 million).

**Total net financial debt**, which also includes financial payables from operating leases pursuant to IFRS 16 amounting to Euro 216.5 million (mainly leases), stood at Euro 366.1 million.

#### 4. Revenue

**Gross operating revenue** in first quarter 2019, split up by main business segment, can be analyzed as follows versus the amounts of the same period of 2018:

2019 (€ millions)	Magazine publishing Cairo Ed.	Advertising	TV publishing La7	Network operator Cairo Network	RCS	Trovatore	Intra and un allocated	Total
TV advertising	-	38.2	25.8	-	0.3	-	(26.5)	<b>37.9</b>
Advertising on print media, Internet and sporting events	3.1	5.8	0.3	-	87.6	-	(3.4)	<b>93.4</b>
Other TV revenue	-	-	0.6	-	1.7	-	(0.2)	<b>2.2</b>
Magazine over-the-counter sales and subs	20.4	-	-	-	102.6	-	(0.1)	<b>122.9</b>
VAT relating to publications	(0.3)	-	-	-	(1.1)	-	-	<b>(1.4)</b>
Other revenue	-	0.2	-	3.0	25.2	0.2	(3.3)	<b>25.2</b>
<b>Total gross operating revenue</b>	<b>23.1</b>	<b>44.2</b>	<b>26.7</b>	<b>3.0</b>	<b>216.2</b>	<b>0.2</b>	<b>(33.4)</b>	<b>280.1</b>
Other revenue	0.8	0.0	1.4	0.0	5.4	-	(0.3)	7.4
<b>Total gross revenue</b>	<b>23.9</b>	<b>44.2</b>	<b>28.2</b>	<b>3.0</b>	<b>221.6</b>	<b>0.2</b>	<b>(33.7)</b>	<b>287.5</b>

2018 (€ millions)	Magazine publishing Cairo Ed.	Advertising	TV publishing La7	Network operator Cairo Network	RCS	Trovatore	Intra and un allocated	Total
TV advertising	-	36.3	24.6	-	0.6	-	(25.0)	<b>36.6</b>
Advertising on print media, Internet and sporting events	3.7	6.3	0.3	-	94.0	-	(4.1)	<b>100.1</b>
Other TV revenue	-	-	0.5	-	2.0	-	-	<b>2.5</b>
Magazine over-the-counter sales and subs	22.2	-	-	-	107.4	-	(0.1)	<b>129.5</b>
VAT relating to publications	(0.3)	-	-	-	(1.4)	-	-	<b>(1.7)</b>
Other revenue	-	0.2	-	3.0	24.3	0.2	(3.3)	<b>24.3</b>
<b>Total gross operating revenue</b>	<b>25.6</b>	<b>42.8</b>	<b>25.5</b>	<b>3.0</b>	<b>226.9</b>	<b>0.2</b>	<b>(32.6)</b>	<b>291.3</b>
Other revenue	0.4	0.1	2.1	0.0	7.5	0.0	-	10.1
<b>Total gross revenue</b>	<b>25.9</b>	<b>42.9</b>	<b>27.6</b>	<b>3.0</b>	<b>234.4</b>	<b>0.2</b>	<b>(32.6)</b>	<b>301.4</b>



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## 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*”.

In first quarter 2019, 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 0.9 million and approximately Euro 0.5 million (Euro 1.7 million and Euro 1.4 million in the same period of 2018).

The new IFRS 16, which came into force on 1 January 2019, resulted in an improvement of Euro 0.3 million in gross operating profit (EBITDA) of the Cairo Editore publishing segment, resulting from the reversal of lease payments, offset by higher amortization and depreciation of Euro 0.3 million (the impact on operating profit came basically to zero) and financial expense of approximately zero.

The Group weeklies reported high circulation results, with an average ADS weekly circulation in the January-March three-month period of 2019 of 385,595 copies for “*Settimanale DIPIU’*”, 206,307 copies for “*DIPIU’ TV*”, 75,526 copies for “*Settimanale DIPIU’ e DIPIU’TV Cucina*”, 147,023 copies for “*Diva e Donna*”, 190,406 copies for “*Settimanale Nuovo*”, 111,845 copies for “*F*”, 100,531 copies for “*TVMia*”, 67,539 copies for “*Settimanale Giallo*”, 88,913 copies for “*NuovoTV*” and 39,770 copies for “*Nuovo e Nuovo TV Cucina*”, reaching a total of approximately 1.4 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 1.5 million.

In the following months of 2019, Cairo Editore’s strategy will continue to focus on the following elements: (i) the pivotal importance of the quality of its products, (ii) supporting the circulation



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levels of its own titles, 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 to the ongoing improvement of industrial, publishing and procurement conditions and processes, and (iv) the search for opportunities to increase the quality of the product portfolio, in order to capture the market segments with greater potential.

### **ADVERTISING**

Looking at the advertising segment, in first quarter 2019 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 (*Network.it*, *Open.online*) and for the sale of stadium signage and space at the Olimpico in Turin for Torino FC.

In first quarter 2019, gross advertising sales on La7 and La7d channels amounted to Euro 37.7 million (Euro 36 million in the same period of 2018). Advertising sales on Cairo Editore titles amounted to Euro 3.9 million (Euro 4.7 million in the same period of 2018).

Gross operating profit (EBITDA) and operating profit (EBIT) in the advertising segment came both to Euro 0.9 million (both Euro 1 million in the same period of 2018).

The new IFRS 16, which came into force on 1 January 2019, resulted in an improvement of Euro 0.1 million in gross operating profit (EBITDA), resulting from the reversal of lease payments, offset by higher amortization and depreciation of Euro 0.1 million (the positive impact on operating profit came basically to zero) and financial expense of approximately zero.

### **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



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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.

In first quarter 2019, the TV publishing segment (La7) achieved gross operating profit (EBITDA) of approximately Euro 1 million (approximately Euro -0.4 million in the same period of 2018). Given the characteristics of La7's programming schedule and distribution of advertising revenue over the year, the first quarter usually has a higher percentage of costs incurred for in-house productions on revenue, compared to the rest of the year.

Operating profit (EBIT) came to approximately Euro -1.8 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 0.2 million, due to the write-down of tangible and intangible assets made in 2013 in the purchase price allocation of the investment in La7. In the same period of 2018, operating profit (EBIT) had come to Euro -2.9 million, benefiting in the consolidated financial statements from lower amortization and depreciation of Euro 0.5 million.

The new IFRS 16, which came into force as from 1 January 2019, resulted in an improvement in gross operating profit (EBITDA) of Euro 0.4 million, resulting from the reversal of lease payments, offset by higher amortization and depreciation of Euro 0.3 million (Euro 0.1 million the positive impact on operating profit) and higher financial expense of Euro 0.1 million.

In first quarter 2019, La7's average all-day share was 3.75%, up by 5% versus the same period of 2018, when the channel's audience had already increased strongly versus the prior year, and 4.96% in prime time (i.e. the time slot 20.30-22.30), increasing by 4.4% versus the same period of 2018, with a high-quality target audience. La7d's share was 0.49% (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 7.14% average share from Monday to Friday, *TgLa7 edizione delle 20* 5.85% from Monday to Friday, *diMartedì* 6.25%, *Piazzapulita* 5.63%, *Propaganda Live* 5.12%, *Non è l'Arena* 6.6%, *Omnibus Dibattito* 4.23%, *Coffee Break* 5.2%, *L'Aria che tira* 6.82%, *Tagadà* 3.52% and *Atlantide* 3%.

In first quarter 2019, La7 was firmly the sixth national network in prime time for average listeners, and in the first two months the fifth channel in front of Italia 1. In the entire morning slot (07.00-12.00) too, La7 achieved high ratings, with an average share of 4.38%, up by 1% versus the same period of 2018, ranking as fourth generalist channel in the quarter.



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Excellent results were achieved on the web front, with over 3.9 million (+22% versus the same period of 2018) average monthly unique browsers on the La7 sites (*La7.it*, *TGla7.it*, *Sedanoallegro.it*) and the *TGla7* app.

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 and RCS Sports & Events, 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.

With *Solferino - i libri del Corriere della Sera*, RCS is active in book publishing and since March 2019 has operated *RCS Academy*, the new Business School of the RCS Group.



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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<sup>9</sup>, marking a return to positive territory by the RCS Group (the first time since 2010), and in 2017 and 2018 the net result had amounted to Euro 71.1 million<sup>9</sup> and Euro 85.2 million<sup>9</sup>.

In first quarter 2019, against a persistently uncertain background, with the main relevant markets in decline, the Italian advertising market in particular, weaker than expected, RCS achieved - in the consolidated financial statements of Cairo Communication - gross operating profit (EBITDA) of approximately Euro 23.1 million<sup>10</sup> and operating profit (EBIT) of Euro 9.4 million (Euro 22.3 million and Euro 10.7 million in the same period of 2018).

As commented earlier, this Interim Management Statement incorporates the adoption of the new IFRS 16 which, for the RCS segment, resulted in an improvement in consolidated gross operating profit (EBITDA) of Euro 6.5 million, resulting from the reversal of lease payments, offset by higher amortization and depreciation of Euro 5.5 million - therefore a positive impact of Euro 1 million on consolidated operating profit (EBIT) - and higher financial expense of Euro 0.9 million, with a total impact of Euro 0.1 million on the result before tax.

If the new standard had not been applied, gross operating profit (EBITDA) in first quarter 2019 would have decreased on a like-for-like basis by Euro 5.7 million versus Euro 22.3 million in first quarter 2018, with a decrease due also to the effect of net non-recurring expense and income (overall effect Euro -2.9 million as it amounted to Euro -0.7 million at 31 March 2019 versus Euro +2.2 million at 31 March 2018, the latter due mainly to non-recurring income of Euro 2.6 million from a settlement agreement).

Moreover, RCS's seasonality factors generally impact on the results of the first and third quarters of the year.

In first quarter 2019, consolidated net operating revenue generated by RCS amounted to approximately Euro 206.2 million, down by a total of Euro 10.1 million versus the same period of 2018. Specifically, revenue from RCS digital activities grew by 8% versus the same period of 2018, reaching Euro 38 million. Total advertising sales from online media reached Euro 28.3 million in first quarter 2019 (36.4% of total net advertising revenue), an increase of approximately 6.5% versus the same figure in first quarter 2018.

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<sup>9</sup> RCS 2018 Annual Report

<sup>10</sup> 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, which lie in the provisions for risks and in the allowance for impairment, amounting to a total of Euro 0.5 million in first quarter 2019 - EBITDA shown in the RCS Interim Management Statement at 31 March 2019, approved on 9 May 2019, amounted to Euro 22.6 million.



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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 first quarter 2019, *Corriere della Sera* recorded an average of 281 thousand copies distributed, including average digital copies, while *La Gazzetta dello Sport* recorded an average of 148 thousand copies distributed, including average digital copies (ADS: January-March 2019). The circulation of *Corriere della Sera* and *La Gazzetta dello Sport* at newsstands (channels provided for by law) was down by -4.7% and -3.5% versus the first three months of 2018, while the relevant market fell by -7.8% and -6.1% (ADS January-March 2019).

The main digital performance indicators confirm the top market position of RCS, with *corriere.it* and *gazzetta.it* reaching an average of 19.8 million and 10.7 million unique users respectively per month at end February 2019 (Audiweb 2.0). For the two sites, average monthly unique browsers in the quarter amounted to 44.9 million and 30.5 million (Adobe Analytics). In March, the total active customer base for *Corriere della Sera* (digital edition, membership and m-site) was 137 thousand subscribers, up by 22% versus the same period of 2018.

The average daily circulation of *El Mundo* and *Expansion* (including digital copies) in first quarter 2019 amounted to 105 thousand and 33 thousand copies; copies of the sports daily *Marca* amounted to approximately 110 thousand, including digital copies (OJD).

The figures published by EGM (*Estudio General de Medios*: last update April 2019) confirm Unidad Editorial's leadership in the daily newspapers segment; through its brands, the daily reaches approximately 2.6 million readers/day, approximately 700 thousand readers more than its main competitors. In Spain, too, the main digital performance indicators confirm the top market position of Unidad Editorial, with *elmundo.es*, *marca.com* and *expansion.com* reaching 19.9 million, 16.0 million and 6.6 million average monthly unique users at end March 2019 (Comscore IP Spain, which considers only traffic coming from Spain). For the three sites, average monthly unique browsers for the quarter amounted to 48 million, 56.6 million and 11.1 million (Omniure).

At 31 March 2019, the net financial debt of RCS amounted to Euro 158.2 million, improving by approximately Euro 29.4 million versus 31 December 2018, thanks mainly to the positive cash flows of Euro 34 million from ordinary operations, only partly offset by outlays for capital expenditure and net non-recurring expense (Management Reporting).





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The total net financial debt of RCS, which also includes financial payables from operating leases pursuant to IFRS 16 amounting to Euro 186 million (mainly leases), stood at Euro 344.2 million<sup>11</sup>.

Mention should be made that the Shareholders' Meeting of 2 May 2019 approved the distribution of a dividend of Euro 0.06 per share, gross of tax, for a total of Euro 31 million, with ex-dividend date on 20 May 2019.

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.

Specifically, in Italy, the quarter under review saw the restyling of *Amica* (out on newsstands on 19 February 2019) and the new *Corriere Milano* (6 March 2019); the Motors section website of *La Gazzetta dello Sport* was expanded (7 March 2019), *economia.corriere.it*, the new website of the business-related section of daily *Corriere della Sera* was launched (25 March 2019), *Corriere del Mezzogiorno-Puglia e Matera* made its debut (26 March 2019), while 28 March 2019 saw the kick-off of the wide range of activities of *RCS Academy*, the Business School launched in January 2019. In Spain, the quarter saw the creation of *BeStory*, a digital content production area for social networks also involving *marketing influencers*, the restyling of *Telva* (20 February 2019) and of the *El Mundo* website (4 March 2019).

New developments after the end of the quarter include the release (7 May 2019) of the new *Gazzetta dello Sport* (new and improved graphics and content), the new release of *gazzetta.it* (8 May 2019), the release of the new *Corriere Salute* (9 May 2019), out on Thursdays, and the new 7 (10 May 2019).

With regard to the dispute on the Via Solferino property complex described in RCS's 2018 Annual Report, in 2019:

- Arbitration in Italy: on 15 April 2019 a hearing was held to form the Arbitration Panel, composed of the Chairman, Renato Rordorf, and arbitrators, Vincenzo Roppo and Vincenzo Mariconda. On such date, the Panel assigned the parties the deadlines for filing their briefs and replies and set the next hearing for 16 September 2019;
- New York case: on 24 April 2019, the New York Supreme Court decided to "stay" the case in New York pending the outcome of the arbitration in Italy.

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<sup>11</sup> The adoption of IFRS 16 will have no effect on the measurement of the covenant under the Loan Agreement dated 4 August 2017, as the Agreement already implied the exclusion of the effects of the new standard for the purposes of calculating the covenant.



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### 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, winning the rights to use a lot of frequencies ("mux") for a period of 20 years, and entering in January 2015 with EI Towers S.p.A. into an agreement for the realization and subsequent long-term technical management in full service mode (hospitality, service and maintenance, use of broadcasting infrastructure, etc.) of the electronic communications network for the broadcasting of audiovisual media services on frequencies allocated. 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.

The 2018 Annual Report contains a detailed description of the current developments in the legislative and regulatory framework regarding the rights to use television frequencies, following the provisions of the 2018 and 2019 Budget Laws, and of Cairo Network's distinctive position against this backdrop.

### IL TROVATORE

In first quarter 2019, Il Trovatore continued operations, mainly providing technological services to develop and maintain the online platforms of the Group's companies.

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

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. 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.



<b>Receivables and financial assets</b> (€ millions)	<b>Trade receivables</b>	<b>Receivables from tax consolidation</b>	<b>Other current financial assets</b>
Parents	-	0.9	-
Associates	21.8	-	1.2
Other affiliates	1.0	-	-
Other related parties	0.9	-	-
<b>Total</b>	<b>23.7</b>	<b>0.9</b>	<b>1.2</b>

<b>Payables and financial liabilities</b> (€ millions)	<b>Trade and other payables</b>	<b>Other current financial liabilities</b>	<b>Other non-current financial liabilities</b>
Parents	-	-	-
Associates	7.3	0.6	-
Other affiliates	7.1	-	-
Other related parties	-	-	-
<b>Total</b>	<b>14.4</b>	<b>0.6</b>	<b>-</b>

<b>Revenue and costs</b> (€ millions)	<b>Operating revenue</b>	<b>Operating costs</b>	<b>Financial income</b>
Parents	-	-	-
Associates	65.2	(25.6)	0.2
Other affiliates	0.0	(1.0)	-
Other related parties	0.6	(0.1)	-
<b>Total</b>	<b>65.8</b>	<b>(26.7)</b>	<b>0.2</b>

Transactions with associates refer mainly to:

- m-dis Distribuzione Media S.p.A., which operates in Italy as distributor in the newsstands channel for the RCS Group, in respect of which Group companies generated in first quarter 2019 revenue of Euro 64.8 million and incurred costs of Euro 19.7 million, and hold trade receivables of Euro 21.8 million, current financial receivables of Euro 1.2 million, and trade payables of Euro 2 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 0.4 million and incurred costs of Euro 5.9 million in first quarter 2019, and hold trade payables of Euro 5.3 million.



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Transactions with affiliates refer mainly to:

- the concession contract between Cairo Pubblicità S.p.A. 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 the first quarter of Euro 0.9 million to the concession holder against revenue of Euro 1.2 million net of agency discounts. Cairo Pubblicità earned further commissions of Euro 21 thousand;
- the agreement between Cairo Communication S.p.A. and Torino F.C. for the provision of administrative services such as bookkeeping, which provides for an annual consideration of Euro 0.1 million.

Transactions with “other related parties” refer mainly to commercial dealings of RCS with the Della Valle and Pirelli groups, in respect of which Group companies generated revenue of Euro 0.6 million. Trade receivables amounted to Euro 0.9 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 first quarter 2019:

- 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 0.6 million.
- the RCS Group paid Directors, Statutory Auditors and Key Management Personnel fees totaling Euro 1.8 million.

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

The procedures adopted by the Group for related party transactions, to ensure transparency and substantial and procedural fairness, implemented by the Group, are explained in the 2018 “Report on Corporate Governance and Ownership Structure”.



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## **6. Events occurring after the quarter and business outlook**

Against a persistently uncertain backdrop, in first quarter 2019:

- RCS continued to generate positive margins and cash flows and achieved its targets of gradually reducing its financial debt (Euro -29.4 million versus end 2018), thanks to the initiatives implemented to maintain and develop revenue and to the ongoing efficiency action;
- the TV publishing segment La7 continued to report increases in La7's audience (+5% in the all-day share and +4.4% in prime time versus the same period of 2018, when audience figures had already risen sharply versus 2017). Advertising sales on La7 and La7d, amounting to Euro 37.7 million, were equally on the rise, increasing by 4.9% versus the same period of 2018 (Euro 36 million);
- 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 own costs.

In the following months of 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 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.

As for RCS, on the approval of the Interim Management Statement at 31 March 2019, 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, RCS believes it can confirm the target of achieving in the remaining part of 2019 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.



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

For the Board of Directors  
Chairman Urbano Cairo



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***Declaration, pursuant to art 154-bis paragraph 2 of Legislative Decree no. 58 of 24 February 1998 (T.U.F.)***

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

Financial Reporting Manager  
Marco Pompignoli