



CAIRO COMMUNICATION

**Draft Annual Financial Report at 31 December
2011**

Cairo Communication S.p.A.
Head office: Via Tucidide 56, Milan
Share Capital € 4,073,856.80

Translation into the English language solely for the convenience of international readers



Governance

Board of Directors

Urbano Cairo*	Chairman
Uberto Fornara	Chief Executive Officer
Roberto Cairo	Director
Marco Janni	Director
Antonio Magnocavallo	Director
Marco Pompignoli	Director
Roberto Rezzonico	Director
Mauro Sala	Director

Internal Control Committee

Roberto Rezzonico	Director
Antonio Magnocavallo	Director
Mauro Sala	Director

Remuneration Committee

Antonio Magnocavallo	Director
Roberto Rezzonico	Director
Marco Janni	Director

Related Party Committee

Marco Janni	Director
Mauro Sala	Director
Roberto Rezzonico	Director

Board of Statutory Auditors

Marco Moroni	Chairman
Marco Giuliani	Standing auditor
Maria Pia Maspes	Standing auditor
Mario Danti	Alternate auditor
Enrico Tamborini	Alternate auditor

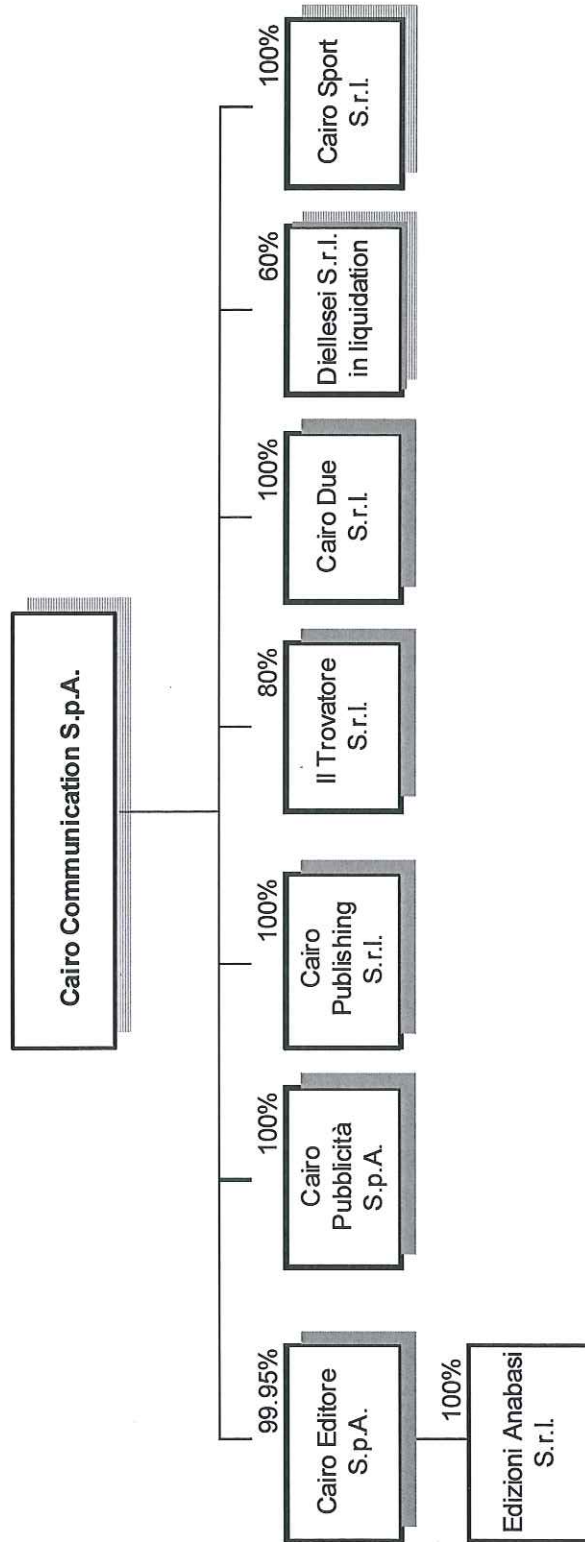
Audit Firm

KPMG S.p.A.

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



The Group at 31 December 2011





DIRECTORS' REPORT

Separate and consolidated financial statements at 31 December 2011

Dear Shareholders,

The separate and consolidated financial statements as at and for the year ended 31 December 2011, submitted for your approval, show, respectively, a profit of Euro 19,258 thousand and a profit attributable to the owners of the parent of Euro 23,446 thousand.

In 2011, the Cairo Communication Group continued to operate as a publisher of magazines and books (Cairo Editore/Editoriale Giorgio Mondadori and Cairo Publishing), as a multimedia advertising broker (Cairo Pubblicità) for the sale of advertising space on TV, in print media, on the Internet and in stadiums, and as operator of Internet sites (Il Trovatore).

In 2011, the short and medium-term economic uncertainty began to deteriorate – starting especially from autumn – reflecting the overall economic-financial scenario.

According to AC Nielsen figures, advertising investments in Italy in 2011 amounted to approximately Euro 8.6 billion, down 3.8% versus the previous year. Nielsen's analysis by media shows that in 2011:

- the magazine advertising market dropped by 3.7% versus 2010, when it had slid by 5.4% versus 2009,
- the TV advertising market fell by 3.1% versus 2010, when it had progressed by 6% versus 2009.

Against this backdrop, in 2011 current operating results for the Cairo Communication Group surged versus last year, with gross operating profit (EBITDA) of approximately Euro 39.5 million (+31.6%) and operating profit (EBIT) of approximately Euro 35.9 million (+36.6%). The 2011 profit attributable to the owners of the parent came to approximately Euro 23.4 million.

Mention must be made that the financial year 2010 had also included non-recurring income from the Cairo-Telepiù arbitration, as illustrated in the 2010 annual financial report, in the paragraph on “*Management Performance of the Cairo Communication Group - Consolidated figures*” contained in the Directors' Report and in the notes to the consolidated and separate financial statements at 31 December 2010 regarding “*Other operating revenues - non-recurring income from Cairo-Telepiù arbitration*”.

Looking at each business segment, in 2011:

- for **publishing**, gross operating profit (EBITDA) and operating profit (EBIT) were up versus the previous year, reaching Euro 19.6 million and Euro 18.2 million respectively, despite the lower number of issues of “Settimanale Dipiù” versus 2010 (52 instead of 53),



with a drop of approximately Euro 0.3 million in profits, the cut price (from 1 Euro to 50 cents) of six issues of “Dipiù TV”, with a drop of approximately Euro 1 million, and costs of Euro 0.3 million, mainly for personnel, incurred in 2011 during the planning stage of the two new magazines scheduled for 2012. In October, Cairo Editore chose Riccardo Signoretti and Marisa Deimichei as the editors-in-chief of two new weeklies. The first, “Settimanale Nuovo”, led by Riccardo Signoretti, debuted on newsstands on 19 January 2012 (the first 2 issues at a launch price of 50 cents), and the first 6 issues posted average sales of approximately 419 thousand copies, a highly satisfying result that even beats forecasts. The second, a women’s weekly, will be launched in 2012;

- for **advertising**, gross operating profit (EBITDA) and operating profit (EBIT) from current operations surged versus the previous year, reaching respectively Euro 19.9 million and Euro 17.7 million, as a result mainly of the increase in TV advertising revenues (+30.1% overall). Advertising sales on LA7, approximately Euro 167.5 million, were up 32.5% versus 2010.

In 2011, LA7 audience shares confirmed the trend that had started in autumn 2010 and increased by 24.4% (3.82% average all-day share versus 3.07% in 2010). Specifically, the 8PM newscast’s average share reached 8.4% in 2011 versus 4.22% in 2010, and continued to enjoy widespread exposure across the media. Excellent results were also achieved by the other news and in-depth programmes, especially by “L’infedele” (6% average share versus 3.71% in 2010), “Otto e mezzo” (6.69% average share versus 3.91% in 2010) and the new programmes “Italialand nuove attrazioni” (9.97% average share in 2011) and “Piazza Pulita” (6.43% average share in 2011).

PERFORMANCE

Cairo Communication Group – Consolidated figures

The main **consolidated income statement figures** of **2011** can be compared as follows with those of 2010:



(€ thousands)	2011			2010		
	Current operations	Non-recurring items	Total	Current operations	Non-recurring items	Total
Gross operating revenue	316,635	-	316,635	271,456	-	271,456
Advertising agency discounts	(35,086)	-	(35,086)	(27,896)	-	(27,896)
Net operating revenue	281,549	-	281,549	243,560	-	243,560
Change in inventory	(124)	-	(124)	(35)	-	(35)
Other income	2,567	-	2,567	2,871	-	2,871
Non-recurring income from arbitration	-	-	-	-	6,792	6,792
Total revenue	283,992	-	283,992	246,396	6,792	253,188
Production cost	(220,854)	-	(220,854)	(194,610)	-	(194,610)
Personnel expense	(23,630)	-	(23,630)	(21,753)	-	(21,753)
Gross operating profit (EBITDA)	39,508	-	39,508	30,033	6,792	36,825
Amortization, depreciation, provisions and impairment losses	(3,584)	-	(3,584)	(3,738)	-	(3,738)
Operating profit	35,924	-	35,924	26,295	6,792	33,087
Net financial income	1,327	-	1,327	349	-	349
Income (loss) on investment	(765)	-	(765)	1	-	1
Pre-tax profit	36,486	-	36,486	26,645	6,792	33,437
Income tax	(13,027)	-	(13,027)	(9,518)	(3,122)	(12,640)
Non-controlling interests	(3)	-	(3)	(1)	-	(1)
Profit from continuing operations attributable to the owners of the parent	23,456	-	23,456	17,126	3,670	20,796
Loss from discontinued operations	(10)	-	(10)	(67)	-	(67)
Loss from discontinued operations attributable to non-controlling interests	-	-	-	-	-	-
Loss from discontinued operations attributable to the owners of the parent	(10)	-	(10)	(67)	-	(67)
Profit attributable to the owners of the parent	23,446	-	23,446	17,059	3,670	20,729

In the schedules of the consolidated income statement for 2010 appearing in this directors' report, income arising from the Cairo-Telepiù arbitration is shown separately owing to its non-recurring nature.

As for the preparation of the consolidated financial statements at 31 December 2010, loss attributable to the owners of the parent in Diellesei S.r.l. in liquidation has been shown separately under "loss from discontinued operations".

In 2011, looking at current operations:

- consolidated gross revenue was approximately Euro 319.2 million (Euro 274.3 million in 2010), which comprise operating revenue of Euro 316.6 million and other revenue of Euro 2.6 million, up 16.3% overall versus 2010,
- consolidated gross operating profit (EBITDA), amounting to approximately Euro 39.5 million, was up 31.6% versus 2010 (Euro 30 million),



- operating profit (EBIT) amounted to approximately Euro 35.9 million, rising by 36.6% versus 2010 (Euro 26.3 million),
- profit from current operations attributable to the owners of the parent came to approximately Euro 23.4 million, up 37.4% versus 2010 (Euro 17.1 million).

Including non-recurring income from the Cairo-Telepiù arbitration, in 2010 consolidated gross operating profit (EBITDA) and operating profit (EBIT) had amounted to approximately Euro 36.8 million and approximately Euro 33.1 million, respectively. Profit attributable to the owners of the parent had come to approximately Euro 20.7 million.

The variation in financial income is mainly due to the variation in interest rates versus 2010 (1.19% average 1-month Euribor in 2011 versus 0.57% in 2010).

Investment income refers to the effect of the measurement of the investment in the associate Dmail Group S.p.A.

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

(€ thousands)	2011	2010
Consolidated statement of comprehensive income		
Profit attributable to the owners of the parent	23,446	20,729
Loss on measurement of available-for-sale financial assets	(8)	(1,775)
Total comprehensive income	23,438	18,954

Loss on measurements of available-for-sale financial assets, equal to Euro 8 thousand, refers to the adjustment of the carrying amount of the investment in the listed company Dmail Group (765,000 shares, or 10% of the share capital), at the date taken as the basis to reclassify the investment from “investments in other companies” “available for sale” to “investments in associates”, as illustrated in Note 18 to the consolidated financial statements at 31 December 2011 “*Investments and non-current financial assets*”.

The Group’s performance can be read better by analyzing the 2011 results by **core business** (publishing, advertising and Il Trovatore) versus those of 2010:



2011	Publishing	Advertising		Trovatore	Unallocated operations	Intra-group	Total
(€ thousands)		Current operations	Non-recurring items				
Gross operating revenue	100,181	246,778	-	354	-	(30,678)	316,635
Advertising agency discounts	-	(35,086)	-	-	-	-	(35,086)
Net operating revenue	100,181	211,692	-	354	0	(30,678)	281,549
Change in inventory	(124)	-	-	-	-	-	(124)
Other income	1,872	695	-	-	-	-	2,567
Non-recurring income from arbitration	-	-	-	-	-	-	-
Total revenue	101,929	212,387	-	354	0	(30,678)	283,992
Production cost	(65,571)	(185,665)	-	(296)	-	30,678	(220,854)
Personnel expense	(16,746)	(6,852)	-	(32)	-	-	(23,630)
Gross operating profit (EBITDA)	19,612	19,870	-	26	0	0	39,508
Amortization, depreciation, provisions and impairment losses	(1,416)	(2,170)	-	2	-	-	(3,584)
Operating profit (EBIT)	18,196	17,700	-	28	0	0	35,924
Net financial income	177	1,151	-	(1)	-	-	1,327
Loss on investment	-	(765)	-	-	-	-	(765)
Pre-tax profit	18,373	18,086	-	27	0	0	36,486
Income tax	(6,451)	(6,554)	-	(22)	-	-	(13,027)
Non-controlling interests	-	-	-	(3)	-	-	(3)
Profit from continuing operations attributable to the owners of the parent	11,922	11,532	-	2	0	0	23,456
Loss from discontinued operations	-	-	-	-	(10)	0	(10)
Profit	11,922	11,532	-	2	(10)	0	23,446

2010	Publishing	Advertising		Trovatore	Unallocated Operations	Intra-group	Total
(€ thousands)		Current operations	Non-recurring items				
Gross operating revenue	101,203	197,227	-	344	-	(27,318)	271,456
Advertising agency discounts	-	(27,896)	-	-	-	-	(27,896)
Net operating revenue	101,203	169,331	0	344	0	(27,318)	243,560
Change in inventory	(35)	-	-	-	-	-	(35)
Other income	1,958	913	-	-	-	-	2,871
Non-recurring income from arbitration	-	-	6,792	-	-	-	6,792
Total revenue	103,126	170,244	6,792	344	0	(27,318)	253,188
Production cost	(68,628)	(153,041)	-	(259)	-	27,318	(194,610)
Personnel expense	(16,194)	(5,526)	-	(33)	-	-	(21,753)
Gross operating profit (EBITDA)	18,304	11,677	6,792	52	0	0	36,825
Amortization, depreciation, provisions and impairment losses	(1,489)	(2,247)	-	(2)	-	-	(3,738)
Operating profit (EBIT)	16,815	9,430	6,792	50	0	0	33,087
Net financial income	-	1	-	-	-	-	1
Loss on investment	61	289	-	(1)	-	-	349
Pre-tax profit	16,876	9,720	6,792	49	0	0	33,437
Income tax	(5,701)	(3,774)	(3,122)	(43)	-	-	(12,640)
Non-controlling interests	-	-	-	(1)	-	-	(1)
Profit from continuing operations attributable to the owners of the parent	11,175	5,946	3,670	5	0	0	20,796
Loss from discontinued operations	-	-	-	-	(67)	-	(67)
Profit	11,175	5,946	3,670	5	(67)	0	20,729



Gross operating revenue in 2011, split up by core business segment (publishing, advertising and Il Trovatore), can be analyzed as follows versus the amounts of 2010:

Gross revenue	2011				
(€ thousands)					
	Publishing	Advertising	Trovatore	Intra-group eliminations	Total
Magazine over-the-counter sales	66,838	-	-	-	66,838
Print media advertising	30,074	41,039	-	(29,860)	41,253
TV advertising	-	201,768	-	-	201,768
Stadium signage	-	2,094	-	-	2,094
Internet advertising	19	1,275	38	-	1,332
Subscriptions	3,126	-	-	-	3,126
Books and catalogues	1,377	-	-	-	1,377
Other revenue	-	602	316	(818)	100
VAT relating to publications	(1,253)	-	-	-	(1,253)
Total gross operating revenue	100,181	246,778	354	(30,678)	316,635
Other revenue	1,872	695	-	-	2,567
Revenue from current operations	102,053	247,473	354	(30,678)	319,202
Non recurring arbitration income	-	-	-	-	-
Total revenue	102,053	247,473	354	(30,678)	319,202

Gross revenue	2010				
(€ thousands)					
	Publishing	Advertising	Trovatore	Intra-group eliminations	Total
Magazine over-the-counter sales	70,978	-	-	-	70,978
Print media advertising	26,675	38,918	-	(26,501)	39,092
TV advertising	-	155,058	-	-	155,058
Stadium signage	-	1,571	-	-	1,571
Internet advertising	-	1,092	28	-	1,120
Subscriptions	2,883	-	-	-	2,883
Books and catalogues	1,970	-	-	-	1,970
Other revenue	-	588	316	(817)	87
VAT relating to publications	(1,303)	-	-	-	(1,303)
Total gross operating revenue	101,203	197,227	344	(27,318)	271,456
Other revenue	1,958	913	-	-	2,871
Revenue from current operations	103,161	198,140	344	(27,318)	274,327
Non recurring arbitration income	-	6,792	-	-	6,792
Total revenue	103,161	204,932	344	(27,318)	281,119



The main **consolidated statement of financial position** as at 31 December 2011 can be compared with the situation as at 31 December 2010:

(€ thousands)	31/12/2011	31/12/2010
Balance sheet		
Property, plant and equipment	2,724	2,656
Intangible assets	9,282	9,552
Financial assets	1,540	2,319
Deferred tax assets	4,734	4,480
Net current assets	(3,170)	(1,147)
Total assets	15,110	17,860
Non-current borrowings and provisions	6,081	6,015
(Net financial assets)/Net debt	(54,701)	(58,339)
Equity attributable to the owners of the parent	63,727	70,184
Equity attributable to non-controlling interests	3	0
Total equity and liabilities	15,110	17,860

Mention must be made that:

- at their Meeting of 28 April 2011 the shareholders approved the distribution of a dividend of Euro 0.25 per share, inclusive of tax, for a total of Euro 19.4 million;
- on 30 November 2011, the Board of Directors resolved to distribute to the Shareholders an interim dividend for financial year 2011 of Euro 0.15 (inclusive of tax), for a total of Euro 11.7 million, of which Euro 10.2 million had been distributed as at 31 December 2011.

In 2011, as part of the share buy-back plans, 400,000 treasury shares were sold (0.511% of the share capital) following entry in the shareholding structure of an institutional investor of prominent standing, at a unit price of Euro 3.00 per share, equivalent to a total value of Euro 1.2 million. As at 31 December 2011, Cairo Communication held a total of 371,326 treasury shares, or 0.474% of the share capital, subject to art. 2357-ter of the Italian Civil Code.

The consolidated **net financial assets** as at 31 December 2011, compared with the situation as at 31 December 2010, can be summarized as follows:

(€ thousands)	31/12/2011	31/12/2010	Change
Cash and cash equivalents	54,701	58,260	(3,559)
Current financial assets	-	79	(79)
Total	54,701	58,339	(3,638)

To analyze the major financial indicators, the asset structure as at 31 December 2011 can be examined using a reclassified statement showing increasing liquidity/settlement:



	31/12/2011	31/12/2010
(€ thousands)		
Non-current assets		
Property, plant and equipment and intangible assets	12,007	12,208
Financial assets	1,540	2,319
Deferred tax assets	4,734	4,482
Total non-current assets	18,281	19,009
Current assets		
Inventory	3,389	2,952
Trade receivables (unavailable liquid funds)	108,086	93,942
Other unavailable liquid funds	8,988	14,934
Total current operations assets	120,463	111,828
Available liquid funds	54,701	58,260
Total current assets	175,164	170,088
Invested capital	193,445	189,097
Equity	63,730	70,184
Consolidated liabilities		
Post-employment benefits	6,081	6,015
Non-current bank loans	-	-
Total consolidated liabilities	6,081	6,015
Current liabilities		
Current operating liabilities	123,633	112,898
Current bank loans	-	-
Total current liabilities	123,633	112,898
Financing capital	193,445	189,097
Profit	23,446	20,729
Operating profit (EBIT)	35,924	33,087
Sales	281,549	243,560

An analysis of the financial position of the Group using the main financial indicators indicates that the Cairo Communication Group is suitably capitalized to maintain financial equilibrium in the medium/long term and has a very sound equity position as it has significant cash resources, and generates positive results and can finance its current operations even within the dynamics of its current assets.



(€ thousands)	Description	31/12/2011	31/12/2010
Solvency indicators			
Current assets less current liabilities margin	Current assets-current liabilities	51,530	57,192
Current assets less current liabilities ratio	Current assets /current liabilities	1,42	1,51
Treasury margin	(Unavailable liquid funds + available liquid funds)-current liabilities	48,141	54,240
Current ratio	(Unavailable liquid funds + available liquid funds)/current liabilities	1,39	1,48
Non-current asset financing indicators			
Own funds less fixed assets margin	Own funds – non-current assets	45,449	51,177
Own funds less fixed assets ratio	Equity /non-current assets	3.5	3.7
Own funds plus non-current liabilities less non-current assets margin	(Own funds+ non-current liabilities) – non-current assets	51,530	57,192
Own funds plus non-current liabilities/non-current assets ratio	(Own funds+ non-current liabilities)/ non-current assets	3.8	4.0
Financing structure indicators			
Total debt ratio	(non-current + current liab.)Own funds Third parties funds /Own funds	2.0	1.7
Financing debt ratio		0.0	0.0
Current operating assets - current operating liabilities		(3,171)	(1,068)
Profitability indicators			
ROE	Profit /Own funds	36.8%	29.5%
ROE current operations	Profit curr. op./Own funds	36.8%	24.3%
ROI	Operating profit / (Inv. op. capital – op. liabilities)	51.5%	43.4%
ROI current operations	Operating profit current operations/ (Inv. op. capital – op. liabilities)	51.5%	34.5%
Other indicators			
Receivables turnover		117	117

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

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

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



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

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

As further non-financial key performance indicators, the Group mainly uses data relating to distribution that indicate the “success” of each title, where performance may be analyzed as follows, for weeklies and monthlies (ADS):

<u>Weeklies</u>	Dipiu'	Div a & Donna	Dipiu' TV	Dipiu' TV Cucina	TV Mia
ADS November 2011	674,186	199,078	436,590	415,923	179,390
ADS November 2010	717,832	202,223	468,767	405,423	174,403
	-6.08%	-1.56%	-6.86%	2.59%	2.86%

<u>Monthlies</u>	For Men Magazine	Natural Style	Bell'Italia	Bell'Euro- pa	In Viaggio	Airone	Gardenia
ADS November 2011	89,489	81,583	62,922	33,097	36,713	72,650	61,198
ADS November 2010	99,623	88,363	64,709	34,012	37,886	77,911	56,970
	-10.17%	-7.67%	-2.76%	-2.69%	-3.10%	-6.75%	7.42%

These figures show how circulation managed to hold ground, despite the tough market in 2011.

Cairo Communication S.p.A. - Parent performance

The main **Parent income statement figures** for 2011 can be compared as follows versus those of 2010:



	2011			2010		
	Current operations	Non-recurring items	Total	Current operations	Non-recurring items	Total
Gross operating revenue	140,487	-	140,487	137,472	-	137,472
Advertising agency discounts	-	-	-	-	-	-
Other income	261	-	261	528	-	528
Non-recurring income from arbitration	-	-	-	-	9,944	9,944
Total revenue	140,748	-	140,748	138,000	9,944	147,944
Production cost	(127,125)	-	(127,125)	(129,470)	-	(129,470)
Personnel expense	(2,773)	-	(2,773)	(2,469)	-	(2,469)
Gross operating profit (EBITDA)	10,850	-	10,850	6,061	9,944	16,005
Amortization, depreciation, provisions and impairment losses	(218)	-	(218)	(222)	-	(222)
Operating profit (EBIT)	10,632	-	10,632	5,839	9,944	15,783
Net financial income	952	-	952	237	-	237
Income on investment	11,674	-	11,674	7,462	-	7,462
Pre-tax profit	23,258	-	23,258	13,538	9,944	23,482
Income tax	(3,990)	-	(3,990)	(2,394)	(3,122)	(5,516)
Profit from continuing operations	19,268	-	19,268	11,144	6,822	17,966
Loss from discontinued operations	(10)	-	(10)	(67)	-	(67)
Profit	19,258	-	19,258	11,077	6,822	17,899

In 2011, 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 customers and returning to the sub-grantor Cairo Communication a share of revenue generated by resources managed on a sub-concession basis.

Starting from January 2011, Cairo Pubblicità has entered directly with Cairo Editore into an exclusive advertising concession contract on its publications. Until December 2010, print media advertising sales had been governed by a sub-concession agreement.

The drop in revenue of Cairo Communication on print media is attributable to this new contractual framework, more than offset in the twelve months, however, by the surge in TV advertising revenue.



In 2011, looking at current operations:

- gross revenue was approximately Euro 140.7 million (Euro 138 million in 2010), which comprises operating revenues of Euro 140.5 million and other revenue of Euro 0.2 million;
- gross operating profit (EBITDA) of the Parent, amounting to approximately Euro 10.9 million, surged versus the figure of 2010 (Euro 6.1 million);
- operating profit (EBIT), amounting to approximately Euro 10.6 million, rose sharply versus 2010 (Euro 5.8 million);
- profit from current operations came to approximately Euro 19.3 million (Euro 11.1 million in 2010) increasing also for the variation in investment income.

“Investment income” mainly includes dividends received from subsidiaries Cairo Pubblicità, amounting to Euro 2.3 million (Euro 0.7 million in 2010) and Cairo Editore, amounting to Euro 10.2 million (Euro 6.8 million in 2010) and the impairment losses from the measurement of the investment in the associate Dmail Group S.p.A. (Euro 0.8 million).

As for consolidated figures, in the schedules of the Parent’s income statement referring to 2010 appearing in this Directors’ Report, income arising from the Cairo-Telepiù arbitration is shown separately owing to its non-recurring nature. Including non-recurring income, in the first twelve months of 2010, gross operating profit (EBITDA) had been approximately Euro 16 million, operating profit (EBIT) approximately Euro 15.8 million, and profit approximately Euro 17.9 million.

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

(€ thousands)	2011	2010
Statement of comprehensive income of the Parent		
Profit	19,258	17,899
Loss on measurement of available-for-sale financial assets	(8)	(1,775)
Total statement of comprehensive income	19,250	16,124

As mentioned for consolidated figures, loss on measurement of available-for-sale financial assets, equal to Euro 8 thousand, refers to the adjustment of the carrying amount of the investment in the listed company Dmail Group (765,000 shares, or 10% of the share capital), at the date taken as the basis to reclassify the investment from “investments in other companies”



“available for sale” to “investments in associates”, as illustrated in Note 12 to the parent’s financial statements at 31 December 2011 “*Investments*”.

The main **statement of financial position figures** of Cairo Communication S.p.A. as at 31 December 2011 can be compared with the situation as at 31 December 2010:

(€ thousands)	31/12/2011	31/12/2010
Balance sheet		
Property, plant and equipment	376	352
Intangible assets	124	151
Financial assets	15,169	15,941
Other non-current assets	399	399
Net current assets	7,709	22,234
Total assets	23,777	39,077
Non-current borrowings and provisions	910	837
(Net financial position)/Net debt	(37,476)	(32,742)
Equity	60,343	70,982
Total equity and liabilities	23,777	39,077

As mentioned in the notes to the consolidated balance sheet:

- at their Meeting of 28 April 2011 the shareholders approved the distribution of a dividend of Euro 0.25 per share, inclusive of tax, for a total of Euro 19.4 million.
- on 30 November 2011, the Board of Directors resolved to distribute to the Shareholders an interim dividend for financial year 2011 of Euro 0.15 (inclusive of tax), for a total of Euro 11.7 million, of which Euro 10.2 million had been distributed as at 31 December 2011.

The **net financial position** of the Parent as at 31 December 2011, compared with the situation as at 31 December 2010, is summarized as follows:

(€ thousands)	31/12/2011	31/12/2010	Change
Cash and cash equivalents	37,476	32,663	4,813
Current financial assets	-	79	(79)
Total	37,476	32,742	4,734



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

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

€ thousands)	Equity	Net profit
Financial statements of Cairo Communication S.p.A.	60,343	19,258
<u>Elimination of the carrying amount of consolidated equity investments:</u>		
Difference between carrying amount of investments and their equity value	15,798	-
Share in subsidiaries' profit net of investment impairment losses	-	16,447
<u>Allocation of excess consideration paid:</u>		
Goodwill	7,230	-
Elimination of intra-group profits net of income tax	(19,644)	178
Elimination of intra-group dividends	-	(12,439)
Consolidated financial statements of Cairo Communication	63,727	23,446

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

PUBLISHING

CAIRO EDITORE - CAIRO PUBLISHING

The results achieved by **Publishing** in 2011 can be analyzed as follows:



Publishing (€ thousands)	2011	2010
Gross operating revenue	100,181	101,203
Advertising agency discounts	-	-
Net operating revenue	100,181	101,203
Other income	1,872	1,958
Change in inventory	(124)	(35)
Total revenue	101,929	103,126
Production cost	(65,571)	(68,628)
Personnel expense	(16,746)	(16,194)
Gross operating profit (EBITDA)	19,612	18,304
Amortization, depreciation, provisions and impairment losses	(1,416)	(1,489)
Operating profit (EBIT)	18,196	16,815
Income (loss) on investments	-	-
Net financial income	177	61
Pre-tax profit	18,373	16,876
Income tax	(6,451)	(5,701)
Non-controlling interests	-	-
Profit from continuing operations attributable to the owners of the parent	11,922	11,175
Profit/(loss) from discontinued operations	-	-
Profit for the year	11,922	11,175

Sales revenue from Group publications, amounting to Euro 66.8 million, was down 5.8% versus 2010, due also to the lower amount of issues of “Settimanale Dipiù” versus 2010 (52 instead of 53), causing a loss in revenue of approximately Euro 0.5 million, the cut price (from 1 Euro to 50 cents) of six issues of “Dipiù TV”, with a loss in revenue of approximately Euro 1 million, and the cut price (from 70 cents to 50 cents) of three issues of “TV Mia”, with a loss in revenue of approximately Euro 0.1 million.

Group gross advertising revenue, which reached Euro 40.1 million, was up 5.3% versus the same period of 2010 (Euro 38.1 million), despite one issue less of “Settimanale Dipiù” (ACNielsen, - 3.7% the magazine advertising market in 2011).

Despite the lower amount of issues of “Settimanale Dipiù” (with a loss of about Euro 0.3 million), and the higher promotional costs for the cut prices made (with a loss of Euro 1 million), and costs, amounting to Euro 0.3 million, mainly for personnel, incurred in 2011 during the planning stage of the two new magazines scheduled in 2012, in 2011 gross operating profit (EBITDA) and operating profit (EBIT) in the publishing segment rose versus 2010, reaching respectively Euro 19.6 million and Euro 18.2 million (respectively Euro 18.3 million and Euro 16.8 million in 2010), thanks essentially to the high quality of the Group’s publications and to the



increased levels of efficiency reached in previous periods, confirmed in 2011, to curb production, publishing and distribution costs.

“Settimanale Dipiù”, Italy's second best-selling magazine, with an average ADS circulation of 674,186 copies, “Dipiù TV” (average ADS circulation of 436,590 copies) and “Diva e Donna” (average ADS circulation of 199,078 copies), all three in the 12 months from December 2010 to November 2011, confirmed the outstanding sales results achieved.

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

- cover prices of the weeklies are lower, some significantly lower than those of main competitors; this gap increases appeal and allows space for potential price increases, hence for increased profitability;
- sales are mostly over-the-counter (95%), with a minimum incidence (about 2% on total publishing revenue, including advertising) of revenue generated by gifts and sundry editorial materials, whose sales figures have collapsed in the publishing segment; the Group has opted to focus on the quality of its publications; furthermore, in 2011, gross advertising revenue generated by the Group’s publications accounted for 36% - an extremely low figure if compared with the revenue breakdown of other major publishing groups - while 64% was generated by direct sales and subscriptions, proof of the high editorial quality of publications;
- weekly magazines, which account for approximately 88% of total publishing revenue, are sold as single copies and not bundled with other weeklies and/or dailies to bolster sales.

In October, Cairo Editore chose Riccardo Signoretti and Marisa Deimichei to head two new weeklies, thus returning to a strategy of development through the study, planning and launch of new publications, which had marked its strong growth in the 2003-2006 four-year period. The first, “Settimanale Nuovo”, led by Riccardo Signoretti, debuted on newsstands on 19 January 2012, and the first 6 issues (the first 2 issues at a launch price of 50 cents) posted average sales of approximately 419 thousand copies. The second, a women’s weekly, will be launched in 2012. Riccardo Signoretti, 40 years old, was editor-in-chief over the past few years of various weeklies and monthlies, such as “Vero”, “Vero TV”, “Top”, “Vera”, “Stop” and “Di Tutto”.



Marisa Deimichei, since 2008 editor-in-chief of “Tu Style”, has achieved remarkable results in terms of circulation and image. She was formerly also deputy editor-in-chief of “Anna” and editor-in-chief of “Vanity Fair”, “Pratica”, “Sale e Pepe”, “Cucina Moderna” and “Starbene”.

Summary financial information from the draft financial statements at 31 December 2011 of the subsidiaries is provided in the appendices to the notes to the Parent’s financial statements. Specifically, in 2011:

- Cairo Editore generated revenue of approximately Euro 100.9 million, with gross operating profit (EBITDA) of Euro 19.9 million and operating profit (EBIT) of Euro 17.2 million (Euro 100.9 million, Euro 18.2 million and 15.6 million respectively in 2010),
- Cairo Publishing generated revenues of approximately Euro 1.7 million, with a gross operating loss (EBITDA) of Euro 0.2 million and an operating loss (EBIT) of Euro 0.3 million (Euro 2.3 million, profit of Euro 0.1 million and loss of Euro 0.06 million respectively in 2010).

ADVERTISING

In 2011, the Cairo Communication Group operated as an advertising broker – with subsidiary Cairo Pubblicità - selling space in the print media for Cairo Editore (“For Men Magazine”, “Natural Style”, “Settimanale Dipiù”, “Dipiù TV” and weekly supplements “Settimanale DIPIU’ e DIPIU’TV Cucina” and “Settimanale Dipiù e Dipiù TV Stellare”, “Diva e Donna” and “TV Mia”), the Editoriale Giorgio Mondadori division (“Bell’Italia”, “Bell’Europa”, “In Viaggio”, “Airone”, “Gardenia”, “Arte” and “Antiquariato”) and for Editoriale Genesis (“Prima Comunicazione” and “Uomini e Comunicazione”), and for the sale of advertising space on TV for third parties TIMedia (LA7 and LA7d), Interactive Group (Sportitalia, Sportitalia 2 and Sportitalia 24) and Turner Broadcasting (Cartoon Network, Boomerang, CNN), on the Internet mainly for TIMedia (La7.it and La7.tv), Sportitalia (Sportitalia.it) and Turner Broadcasting (Cartoon Network.it, Cnn.com, Cnnmoney.com) and for the sale of stadium signage and space at the “Olimpico” stadium in Turin for Torino FC.

The results achieved by **Advertising** in 2011 can be analyzed as follows:



(€ thousands)	2011			/2010		
	Current operation	Non-recurring items	Total	Current operations	Non-recurring items	Total
Gross operating revenue	246,778	-	246,778	197,227	-	197,227
Advertising agency discounts	(35,086)	-	(35,086)	(27,896)	-	(27,896)
Net operating revenue	211,692	-	211,692	169,331	0	169,331
Change in inventory	-	-	-	-	-	-
Other income	695	-	695	913	-	913
Non-recurring arbitration income	-	-	-	-	6,792	6,792
Total revenue	212,387	-	212,387	170,244	6,792	177,036
Production cost	(185,665)	-	(185,665)	(153,041)	-	(153,041)
Personnel expense	(6,852)	-	(6,852)	(5,526)	-	(5,526)
Gross operating profit (EBITDA)	19,870	-	19,870	11,677	6,792	18,469
Amortization, depreciation, provisions and impairment losses	(2,170)	-	(2,170)	(2,247)	-	(2,247)
Operating profit (EBIT)	17,700	-	17,700	9,430	6,792	16,222
Net financial income	1,151	-	1,151	-	-	-
Income (loss) on investments	(765)	-	(765)	290	-	290
Pre-tax profit	18,086	-	18,086	9,720	6,792	16,512
Income tax	(6,554)	-	(6,554)	(3,774)	(3,122)	(6,896)
Non-controlling interests	-	-	-	-	-	-
Profit from continuing operations	11,532	-	11,532	5,946	3,670	9,616
Profit (loss) from discontinued operations	-	-	-	-	-	-
Profit (loss) from discontinued operations attributable to non-controlling interests	-	-	-	-	-	-
Profit (loss) from discontinued operations	-	-	-	-	-	-
Profit attributable to the owners of the parent	11,532	-	11,532	5,946	3,670	9,616

In 2011, in the advertising segment, gross operating profit (EBITDA) and operating profit (EBIT) from current operations surged versus last year to Euro 19.9 million and Euro 17.7 million respectively (Euro 11.7 million and Euro 9.4 million respectively in 2010).

Specifically, in 2011 Cairo Pubblicità generated revenue of approximately Euro 246.8 million (Euro 197.3 million in 2010) with gross operating profit (EBITDA) of Euro 9.3 million (Euro 6.1 million in 2010) and operating profit (EBIT) of Euro 7 million (Euro 3.6 million in 2010).

Television

In 2011, TV advertising revenue (which comprises LA7, LA7d, Sportitalia and theme channels Cartoon Network, Boomerang, and CNN), totaling Euro 201.7 million, were up 30.1% overall versus 2010 (ACNielsen, -3.1% the TV advertising market in 2011).



Specifically, advertising revenue on LA7, amounting to approximately Euro 167.5 million, was up 32.5% versus 2010 and greatly exceeded the minimum contractual revenue for the twelve-month period (Euro 120 million), as well as the additional revenue target related to the increase in the channel's share achieved by TIMedia versus the 3% share. As mentioned earlier, in 2011, LA7 audience shares confirmed the trend that had started in autumn 2010 and increased by 24.4% (3.82% average all-day share versus 3.07% in 2010).

Advertising revenues on the unencrypted digital channel LA7d, amounting to approximately Euro 9.6 million, exceeded the 2011 minimum annual target (Euro 8 million).

In 2011, the three-year contractual target (Euro 378 million) securing Cairo a three-year renewal (2012-2014) of the advertising concession contract, was achieved; in October 2011, Cairo Communication and TIMedia acknowledged that the agreement entered into on 19 November 2008 was to be deemed renewed for the further three-year period of 2012-2014, in accordance with the terms and conditions established under the contract and under the additional agreements thereto.

Based on the order book as at 9 March 2012 for advertising aired and to be aired on LA7 in the January-March three-month period of 2012, amounting to Euro 50.4 million, the revenue achieved in the same three-year period of 2011 (Euro 39.6 million) has already been exceeded by over 27%.

In 2011, the three satellite channels Cartoon Network, Boomerang and CNN generated gross revenue basically in line with 2010. In 2011, gross revenues generated by the three digital and satellite channels Sportitalia, Sportitalia 2 and Sportitalia 24 increased versus 2010, when advertising sales, that had kicked off in January, had come into full swing starting only from March.

Print media

As mentioned earlier, in 2011 Group magazine advertising revenue, amounting to Euro 40.1 million, rose by 5.3% versus 2010 (Euro 38.1 million), despite the lower number of issues of "Settimanale Dipiù", confirming the positive trend that had started in 2Q10.

IL TROVATORE

In 2011, Il Trovatore continued operations, providing technological services mainly to Group companies, as well as managing its search engine.



Alternative performance indicators

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

The alternative indicators are:

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

Profit from continuing operations, pre tax

+/- Net finance income

+/- Share in associates

EBIT- Operating profit

+ Amortization & depreciation

+ Bad debt impairment losses

+ Provisions for risks

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

The Cairo Communication Group also considers **net financial position** as a valid indicator of the Group's ability to meet financial obligations, both current and future. As can be seen in the table used above, which details the equity figures used for the calculation of Group net financial position, this figure includes cash and other cash equivalents, bank deposits, securities and other current financial assets, reduced by current and non-current bank borrowings.

Transactions with parents, subsidiaries and associates

Transactions in 2011 with related parties, including with Group companies, were not considered to be atypical or unusual, and were part of the ordinary activities of Group companies. These transactions were carried out on market terms, taking account of the goods and services provided.

Information on transactions with related parties is disclosed in Note 36 to the consolidated financial statements and in Note 29 of 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 financial position of the Cairo Communication Group may be influenced by various factors within the macro-economic environment, such as the increase or decrease of GNP, the level of consumer and corporate confidence, the advertising expenditure/GDP ratio, interest rate trends and cost of raw materials.

In 2011, the short and medium-term economic uncertainty began to deteriorate – starting especially from autumn – reflecting the overall economic-financial scenario. There remains uncertainty over the period required for a return to normal market conditions.

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

To challenge the tough market scenario, the Group implemented, starting in previous periods, and also in 2011, a series of measures to increase efficiency and effectiveness of the production, publishing and distribution processes, and will continue in 2012 to benefit from the high levels of efficiency achieved.

Risks associated with advertising and publishing market trends

In 2011, deterioration of the short and medium-term economic uncertainty – starting especially from autumn – continued to impact negatively on the advertising market.

According to AC Nielsen figures, advertising investments in Italy in 2011 amounted to approximately Euro 8.6 billion, down 3.8% versus the previous year (in particular, -3.7% the magazine advertising market, and -3.1% the TV advertising market versus 2010).

With approximately Euro 246.8 million in gross advertising revenue, the Cairo Communication Group holds about 2.9% of the overall advertising market (2.3% in 2010). Specifically, the Group holds approximately 4.4% of the TV advertising market (3.4% in 2010) and approximately 5.2% of the magazine advertising market (4.7% in 2010). This market share, which increased in 2011, leaves the Group room enough for growth, given the high quality and significant distribution of its own titles, in particular weeklies, and of the resources under concession, qualities and distribution that provide significant competitive edge.



The tough economic environment has slowed the pace of the sale of dailies and magazines. Against this backdrop, in 2011, sales revenue from Group publications, amounting to Euro 66.8 million, fell by 5.8% versus 2010, due also to the lower amount of issues of “Settimanale Dipiù” versus 2010 (52 instead of 53), causing a loss in revenue of approximately Euro 0.5 million, the cut price (from 1 Euro to 50 cents) of six issues of “Dipiù TV”, causing a loss in revenue of approximately Euro 1 million, and the cut price (from 70 cents to 50 cents) of three issues of “TV Mia”, causing a loss in revenue of approximately Euro 0.1 million.

Advertising

The Cairo Communication Group is significantly exposed to advertising sales performance, which has progressively decreased over time as a result of significant developments in the publishing business. Advertising sales from current operations today represent around 77% (approximately 72% in 2010) of total Group revenue. Considering the Group’s publishing business alone, advertising sales in 2011 accounted for 36% - much lower than the revenue breakdown of other major publishing groups - while the remaining 64% was generated by distribution and subscription revenue, demonstrating the great publishing strength of advertising products.

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

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

LA7 presents an excellent audience profile, particularly appealing for advertising. In 2011, LA7 audience shares confirmed the trend that had started in autumn 2010 and increased by 24.4% (3.82% average all-day share versus 3.07% in 2010). Specifically, the 8PM newscast’s average share reached 8.4% in 2011 versus 4.22% in 2010, and continued to enjoy widespread exposure across the media.

Regarding Group titles, the excellent distribution volumes that enabled the Group to become the second major publisher of weeklies by copies sold on newsstands, net of weeklies attached to dailies, make the advertising pages appealing in terms of advertising cost per copy sold (equal to



the difference between the price of the advertising page and the copies sold) which are currently lower than those of the competition.

Distribution

Regarding distribution, the features of the products published by the Group as well as its strategy, are such as to build a significant competitive edge in the current climate of the publishing segment. In particular

- cover prices of the weeklies are lower, some significantly lower than those of the main competitors;
- sales are mostly over-the-counter (95%), with a minimum incidence (less than 2% on total publishing revenue, including advertising) of revenues generated by gifts and sundry editorial materials;
- weekly magazines, which account for approximately 88% of the total publishing segment revenue, are sold as single copies and not bundled with other weeklies and/or dailies to bolster sales.

Risks associated with developments in the media segment

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

Whereas the development of the Internet may impact on the share of print media, mainly on dailies and to a much lesser extent on our weeklies, the growth of pay, satellite and digital terrestrial television may impact on the traditional TV audience.

The Group constantly monitors the level of penetration of new resources as well as changes in the business model related to the distribution of content available to assess the opportunity to develop the various distribution platforms, with particular attention to the Internet. Developments in the regulatory framework are also continually monitored for the media segment and their disclosure within the Group is ensured.



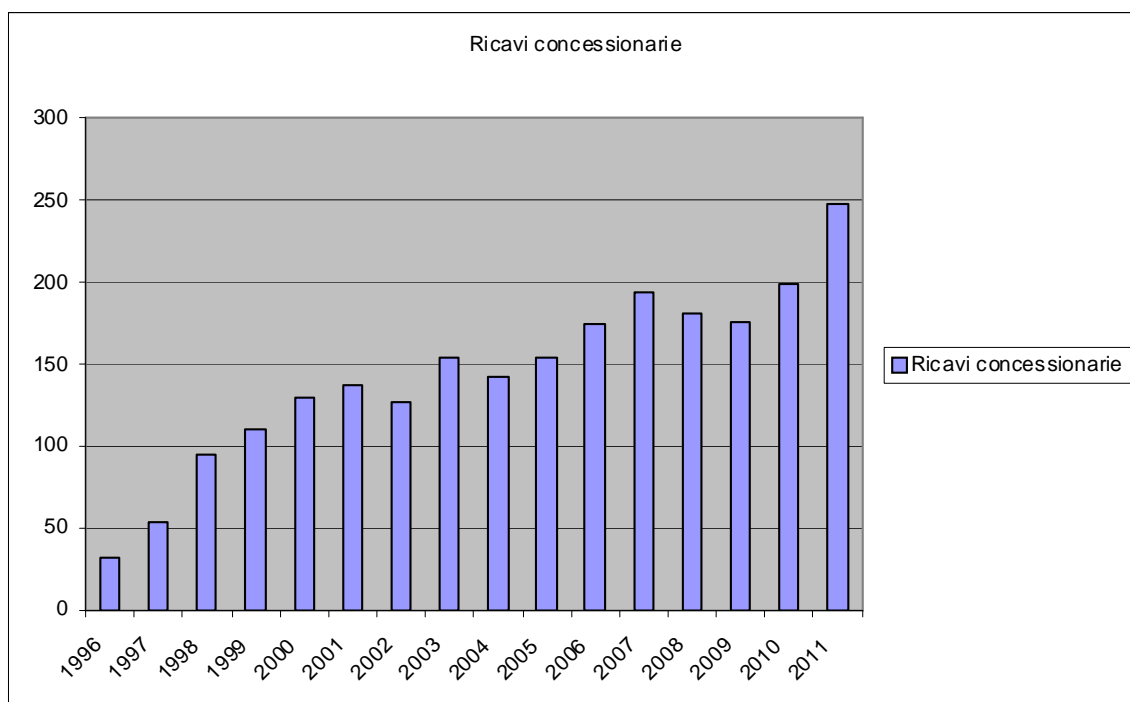
Risks associated with the importance of the advertising concession contracts with third-party publishers

The Cairo Communication Group operates as both publisher of magazines and books, and as a multimedia broker for the sale of advertising space on television, print media, stadiums and the Internet.

In 2011, approximately 64.5% of Group gross revenue was generated from advertising for third-party publishers with respect to the Cairo Communication Group: TIMedia (LA7 and LA7d), Turner Broadcasting (Cartoon Network, Boomerang, CNN), Interactive Group (canali Sportitalia) ed Editoriale Genesis (Prima Comunicazione).

In December 2010, Telecom Italia Media and Cairo agreed to revise the advertising concession contract of 19 November 2008. Specifically, for 2011 and for the 2012-2014 three-year period, both set additional annual advertising revenue targets (unguaranteed) with respect to the minimum annual revenue, proportional to the achievement by Telecom Italia Media of annual targets of share higher than the given 3% for LA7's share. Cairo's achievement of these additional targets, or payment to Telecom Italia Media of equivalent dues, will entitle Cairo to renew the contract up to 31 December 2019. Otherwise, Telecom Italia Media is authorized to withdraw from the contract.

The Group's track record, ever since inception, has demonstrated its ability to manage changes in its portfolio of media types brokered:



The advertising brokerage business started in 1996 with a number of titles of the RCS Group including “IO Donna”, which in the space of a few years exceeded Euro 50 million in advertising sales. In 2001 “ IO Donna” was replaced by “Anna”. The contract with RCS expired at the end of 2002. In 1998 advertising sales were launched on pay TV Telepiù, which was then interrupted in July 2004. In 2003, advertising sales were launched for LA7 and from 2004 those relating to new publishing initiatives for Cairo Editore. At the end of 2009, Cairo Pubblicità had entered a multi-year exclusive advertising concession contract on the digital and satellite Sportitalia and Sportitalia 2 channels and on the www.sportitalia.com website. In 2010, Cairo Communication also entered a concession contract for the new unencrypted digital channel LA7d.

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, too, have a significant role in relation to their publications.

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



Risks associated with retaining the value of the brands of the Group titles

The Cairo Communication Group publishes a number of leading Italian weeklies: “Settimanale Dipiù” (674,186 copies), “DipiùTV” (436,590 copies), “DipiùTV Cucina” (415,923 copies) and “Diva & Donna” (199,078 copies). Among the monthlies, “Gardenia”, “Bell’Italia”, “For Men Magazine”, “Natural Style” and “Arte” are leaders in their own segment.

The value of Group brands must be continuously protected by maintaining the current level of quality and innovation, for example, by keeping the current number of pages, supported by appropriate levels of advertising consistent with the offer.

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 editors of the weeklies, a significant part of their remuneration is linked to the results of the distribution and/or sale of advertising space of the titles.

Risks associated with contractual commitments

In 2011, the three-year contractual target (Euro 378 million) securing Cairo a three-year renewal (2012-2014) of the advertising concession contract, was achieved; in October 2011, Cairo Communication and TIMedia acknowledged that the agreement entered into on 19 November 2008 was to be deemed renewed for the further three-year period of 2012-2014, in accordance with the terms and conditions established under the contract and under the additional agreements thereto. The advertising concession contract regarding LA7 sets minimum annual gross advertising revenue in 2012 of Euro 126 million, with minimum annual guaranteed fees for Telecom Italia Media of Euro 88.2 million (70%).

In return for Cairo’s commitment to minimum gross advertising revenue and minimum fees, Telecom Italia Media undertakes to maintain the annual share of LA7 higher than or equal to 3% and higher than or equal to 2.65% in prime time viewing. Should the shares drop below these thresholds, or further contractually established thresholds, Cairo is entitled to reduce the minimum guaranteed payment equal to Euro 88.2 million.

In December 2010, Telecom Italia Media and Cairo agreed to revise the advertising concession contract of 19 November 2008. Specifically, for 2011 and for the 2012-2014 three-year period, both set additional annual advertising revenue targets (unguaranteed) with respect to the minimum annual revenue, proportional to the achievement by Telecom Italia Media of annual targets of share higher than the given 3% for LA7’s share. Cairo’s achievement of these



additional targets, or payment to Telecom Italia Media of equivalent dues, will entitle Cairo to renew the contract up to 31 December 2019. Otherwise, Telecom Italia Media is authorized to withdraw from the contract.

The contract regarding the LA7d digital channel sets minimum gross advertising revenue in 2012 of Euro 8 million for a 0.2% share of the channel, with minimum guaranteed fees for Telecom Italia Media of Euro 5.6 million, paid as per contract on a monthly basis. A result higher or lower than the 0.2% share will produce a corresponding increase or decrease in minimum annual revenue and in the guaranteed minimum fee.

Failure to achieve the foregoing minimum revenue would impact on Group profit for that year. Likewise, failure to achieve the foregoing additional (unguaranteed) targets set as from 2011, proportional to the achievement by Telecom Italia Media of annual targets of share higher than the given 3% for LA7's share, could impact on the duration of the contract, or in the event of payment to Telecom Italia Media of equivalent dues, on profits for that year.

Based on the order book as at 9 March 2012 for advertising aired and to be aired on LA7 in the January-March three-month period of 2012, amounting to Euro 50.4 million, the revenue achieved in the same three-year period of 2011 (Euro 39.6 million) has already been exceeded by over 27%.

Risks associated with business with suppliers

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

The relationship with the printer used by the Group, which dates back to 1999 - the year Editoriale Giorgio Mondadori was acquired - is governed by an agreement valid until 2012. The printer is one of the main operators in a market which has excess production capacity and is populated by other large players.

In relation to production aspects, relationships with paper suppliers is also of great importance – as a rule these are governed by contracts renewed annually.



Liquidity risks

The Cairo Communication Group is not exposed to liquidity risk, in that on one hand, significant financial resources are held with a net available positive financial position of Euro 54.7 million whilst on the other hand, the Group attempts to ensure that an appropriate ability to generate cash is maintained, despite current market conditions.

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

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

Interest rate and currency risk

The Cairo Communication Group is not exposed to interest rate and currency risk, in that on one hand, there is no loan finance, whilst on the other hand, Group operations are carried out exclusively in Italy, so all revenue is generated in Italy and main costs are incurred in Euro.

Interest rate risk only affects the yield on available cash. Movements in the cash flow and the liquidity of Group companies are centrally monitored and managed by Group Treasury in order to guarantee effective and efficient management of financial resources.

Given limited exposure to both interest rate and currency risk, the Group does not use financial derivative and/or hedging instruments.

Credit risk

The Group is exposed to credit risk, primarily in relation to its advertising sales activities. This risk is however mitigated by the fact that exposure is distributed across a large number of customers and that credit monitoring and control procedures are in place. In terms of concentration, the top 10 customers represent about 16% (18% in 2010) of advertising revenue, while the top 100 customers account for 57% (58% in 2010). These indicators are in line with prior years.

The deterioration of the short and medium-term economic uncertainty – starting especially from autumn, along with the resulting credit squeeze, may of course impact negatively on the quality



of credit and on general payment terms. In 2011, average payment terms for advertising sales improved versus 2010.

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

The Group's maximum theoretical exposure to credit risks as at 31 December 2011 is given by the carrying amount of trade receivables and other recognized receivables totaling Euro 117.8 million, and by the nominal amount of guarantees furnished on third-party debts or commitments as indicated in Note 34 to the consolidated financial statements.

The credit risks associated with cash and cash equivalents, with a maximum theoretical exposure of Euro 54.7 million, refer chiefly to a "counterparty" risk, moderated, however, by the fact that they are deposits spread across various banks, chosen with the above-mentioned criteria illustrated in the notes explaining "liquidity risk".

Risks associated with litigation

The notes on "*other information*" (Note 35 to the consolidated financial statements) contain information on a number of cases of litigation. The evaluation of the potential legal and tax liabilities requires the Company to use estimates and assumptions in relation to forecasts made by the Directors, based upon the opinions expressed by the Company's legal and tax advisers, in relation to the probable cost that can be reasonably considered to be incurred. The actual results may vary from these estimates.

Report on corporate governance and ownership structure

1. Issuer profile

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

The Shareholders are the corporate body that expresses the will of the shareholders through its resolutions at its meeting. It typically appoints the Chairman. Resolutions adopted pursuant to the law and the bylaws bind all the shareholders, including those absent or dissenting.

The Board of Directors has the most ample management powers to achieve corporate objects. Elected every three years at the Shareholders' Meeting, it appoints one or more Chief Executive Officers and determines their powers, and those of the Chairman.

The Remuneration Committee and the Internal Control Committee are bodies set up within the Board of Directors, and comprise members of the Board of Directors and provide consultative



and proposal functions to the Board of Directors. The bodies now also include the Related Party Committee, provided for by the procedures for related party transactions adopted in 2010.

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

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

The duties and methods of operating of these corporate bodies are governed by the law and regulations, by the company bylaws and by the decisions adopted by relevant bodies, in conformity with the regulations set forth in the Corporate Governance Code drawn up by the Corporate Governance Committee of Borsa Italiana S.p.A. in 2006, with amendments made in 2010 to art. 7 regarding remuneration.

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

Information on ownership structure (pursuant to art. 123 bis of the Consolidated Finance Act – TUF) as at 12 March 2012

Information prescribed by art. 123 bis of the TUF is as follows:

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

As at 12 March 2012, the share capital of Cairo Communication S.p.A. was Euro 4,073,856.80, fully paid and subscribed, and it comprised 78,343,400 shares (as at 31 December 2010 78,343,400 shares), with no indication of the nominal amount.

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

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



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

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

In accordance with the bylaws, shares are registered, indivisible and freely transferable. They are without requirements of representation, legitimization, circulation of the company investment required for securities traded on regulated markets.

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

As at 12 March 2012, based on the information received pursuant to art. 120 of the T.U.F. and the update of the shareholders' register, the principal shareholders in Cairo Communication S.p.A. were as follows:

Declarer	Direct shareholder	% of ordinary capital	% of voting capital
URBANO ROBERTO CAIRO	U.T. COMMUNICATIONS SpA	44.812%	44.812%
URBANO ROBERTO CAIRO	U.T. BELGIUM HOLDING S.A.	15.710%	15.710%
URBANO ROBERTO CAIRO	URBANO ROBERTO CAIRO	12.387%	12.387%
SCHRODER INVESTMENT MANAGEMENT LIMITED	SCHRODER INVESTMENT MANAGEMENT LIMITED	2.019%	2.019%

As at the same date, Cairo Communication S.p.A. held 371,326 treasury shares, or 0.474% of the share capital, subject to the provisions of art. 2357-ter of the Civil Code.

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

No securities conferring special controlling rights have been issued.

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

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

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



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

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

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

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

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

Moreover, the bylaws:

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

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

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

At their meeting of 28 April 2011, after revoking a similar resolution adopted on 28 April 2010, the Shareholders approved the proposal to acquire and dispose of treasury shares in accordance with art. 2357 and subsequent articles of the Italian Civil Code, for the purpose of stabilizing the Company share price and sustaining liquidity, and, if deemed necessary by the Board of Directors, of establishing a "shares stock" as provided in Consob regulation 16839/2009. The Board was authorized to acquire treasury shares up to the maximum number permitted by law, for a period of 18 months from the date of authorization, by use of available reserves, including the share premium reserve, as resulting from the last approved annual financial statements. Specifically, the Board of Directors will be authorized to acquire treasury shares on one or more occasions, acquiring shares directly on the market and through authorized intermediary – in accordance with the procedures provided by art. 144 bis, paragraph 1, letter b of the Issuer Regulation and relevant Instructions – and, in case such operations are carried out, according to accepted market practices, pursuant to the regulations introduced by Consob Resolution No. 16839/2009. Minimum and maximum acquisition prices per share are set at an amount equal to



the average official purchase price of the share on Borsa Italiana S.p.A. for the 15 working days preceding the purchase respectively reduced or increased by 20%, in any event within a maximum limit of Euro 6.5 per share. In case such operations are carried out in accordance with accepted market practices pursuant to Consob Resolution no. 16839/2009, the purchase of treasury shares is subject to further limits, including price limits, provided for thereto. The proposal of the Board also allows for the authorization to sell, on one or more occasions, any acquired treasury shares, setting the minimum sale price per share no lower than the minimum price calculated following the criteria adopted for their purchase. Should the treasury shares be sold in accordance with accepted market practices pursuant to Consob Resolution 16839/2009, the sale of treasury shares shall be subject to further limits, including price limits, provided for thereto.

As at 31 December 2011, Cairo Communication held a total of 371,326 treasury shares, or 0.474% of the share capital, subject to art. 2357-ter of the Italian Civil Code.

1) Management and coordination activities

Cairo Communication currently carries out management and coordination activities in relation to the following companies:

- Cairo Pubblicità S.p.A.
- Cairo Editore S.p.A.
- Cairo Publishing S.r.l.
- Cairo Due S.r.l.
- Il Trovatore S.r.l.
- Edizioni Anabasi S.r.l.
- Cairo Sport S.r.l.
- Diellesei S.r.l. in liquidation.

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



Information prescribed by art. 123-bis, paragraph 1, **letter (i)** (“*agreements between the Company and the directors, members of the management board or supervisory board providing for indemnity in the event of resignation or unjust dismissal ...*” and **letter l)** (“*provisions applicable to the appointment and replacement of directors and to changes to the bylaws, if diverging from the legislative and regulatory provisions that might also apply*”) are illustrated in the section on Directors’ fees (Sect. 9).

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

The Cairo Communication Group has adopted a Corporate Governance Code for listed companies, amended in March 2010¹ by the Corporate Governance Committee and promoted by Borsa Italiana, and also available on the Company’s website www.cairocommunication.it and on www.borsaitaliana.it

No Group company is subject to non-Italian law that would influence the structure of Corporate Governance.

4. Board of Directors

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

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

Specifically:

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

¹ The Group is implementing the changes that mainly regard the audit and risk management systems, and the role and responsibilities of the Board of Directors and internal committees, introduced by the new Code of Conduct of listed companies of December 2011, in order to enforce it by 31 December 2012.



ordinary meeting, or other minimum amount set by Consob. Ownership of the minimum stake required for submission of the lists is determined on the basis of the shares recorded in the name of the shareholder on the date the lists are filed with the Company. The relevant prescribed certification may also be submitted subsequent to the filing, provided submission is made within the time limit prescribed for publication of the lists;

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



Mention must be made, for the purposes set forth in art. 123 *bis*, paragraph 1, letter (l) of the T.U.F. that, pursuant to art. 21, paragraph 2 of the bylaws, without prejudice to the competence of the Shareholders at their Extraordinary Meeting, who have the authority to decide on the matter, pursuant to art. 2365 of the Civil Code, the Board of Directors is authorized, *inter alia* to adopt resolutions concerning merger, in the cases set forth in articles 2505 and 2505 *bis* of the Italian Civil Code, capital reduction in the event of shareholder withdrawal, harmonization of the bylaws to mandatory provisions of law, relocation of the registered office to other premises in Italy.

Succession planning

To date, the Board has not adopted any succession plans regarding the executive directors.

4.2 Composition (pursuant to art. 123 bis, paragraph 2, letter d), T.U.F.)

At their Meeting on 28 April 2011, the Shareholders:

- appointed the Board of Directors of the Company for a three-year period, until approval of the financial statements at 31 December 2013, on the basis of the single list presented by the majority shareholder, UT Communications S.p.A., approved with a favourable vote by 76.017% of the share capital, composed of:
 - o three Executive Directors: the Chairman Urbano Cairo, Uberto Fornara and Marco Pompignoli,
 - o two Non-Executive Directors: Antonio Magnocavallo and Roberto Cairo and
 - o three independent directors: Marco Janni, Mauro Sala and Roberto Rezzonico.

To date, the Board has no general criteria in place regarding maximum number of positions held by a director and control in other companies that may be considered compatible with the effective performance of a director's functions for the Issuer.

The directors of Cairo Communication hold no other position in companies listed on regulated markets, financial companies, banks, insurance companies or major companies, except for Marco Janni, who is chairman of CO.MO.I. SIM S.p.A. and of Intesa Lease SEC S.r.l. and board member of Intesa SEC 3 S.r.l, companies that are not part of the Group of which the Issuer is part of.



Board of Directors											Audit Committee		Remuneration Committee		Related Party Committee	
Role	Members	From	Until	List (M/m)*	Executive	Non-executive	Indep. as per Code	Indep. as per TUF	(%)**	N. other positions held***	***	**	***	**	****	**
Chairman	Urbano Cairo	01/01	31/12	M	X	-	-	-	100	-	-	-	-	-	-	-
CEO	Uberto Fornara	01/01	31/12	M	X	-	-	-	100	-	-	-	-	-	-	-
Director	Marco Pompignoli	01/01	31/12	M	X	-	-	-	100	-	-	-	-	-	-	-
Director	Roberto Cairo	01/01	31/12	M	-	X	-	-	100	-	-	-	-	-	-	-
Director	Antonio Magnocavallo	01/01	31/12	M	-	X	-	-	100	-	X	100	X	100	-	-
Director	Roberto Rezzonico	01/01	31/12	M	-	X	X	X	86	-	X	100	X	100	X	100
Director	Mauro Sala	28/04	31/12	M	-	X	X	X	100	-	X	100	-	-	X	100
LID	Marco Janni	01/01	31/12	M	-	X	X	X	86	3	-	-	X	50	X	100
N. of meetings held during the year:						BoD: 7			AC:2		CC:2		RPC: 3			

Notes:

*This column shows M/m depending on whether the member was elected by the majority (M) or minority (m) list.

** This column shows the participation percentage of directors in the BoD and various committees (no. of times present/no of meetings held during their term).

***This column shows number of directorships or statutory auditor positions held in other companies listed on either national or foreign stock exchanges, including finance companies, banks and insurance companies, or of major companies.

****In this column, "X" indicates if the Director is also on the committee.

Urbano Cairo is the founder of the Group and has led its growth and development. A graduate in business corporate administration from the Bocconi University, he has significant experience in the publishing and advertising segments. He started working with Fininvest in 1982 as assistant to Silvio Berlusconi. He went to work for Publitalia '80 in 1985, where he was appointed Deputy-General Manager in 1990. In 1991 he was appointed as managing director of Mondadori Pubblicità. In December 1995 he founded Cairo Pubblicità, which initiated its distributorship activity for a number of RCS Group magazines. He has therefore been the main leader behind Cairo Communication Group's growth, whose main phases are associated with the 1998 acquisition of the company Telepiù Pubblicità, followed by Cairo TV, dedicated PAY TV distributor, the February 1999 acquisition of Editoriale Giorgio Mondadori, Cairo Communication's listing in 2000, the contract for the exclusive rights for the sale of advertising space on LA7 at the end of 2002, the birth of Cairo Editore in 2003 and his subsequent activity in developing successful new publishing initiatives (the launch of "For Men Magazine" and "Natural Style" in 2003, "Settimanale Dipiù" in 2004, "Dipiù TV", "Diva e Donna" in 2005 and "TV Mia" in 2008).

Uberto Fornara is a graduate in business administration from the Bocconi University, and has worked within the Group since its inception, having previously gained significant experience in the publishing segment with Publitalia '80 from 1998 and then in Mondadori Pubblicità, of



which he was appointed Director of Customer Service in 1994. He is also CEO of Cairo Pubblicità S.p.A.

Marco Pompignoli was appointed as Chief Financial Officer in June 2000 and is Financial Reporting Manager of Cairo Communication S.p.A. He is a graduate in business administration and has previously worked in leading audit firms, having gained experience in Italy and abroad.

Roberto Cairo, Urbano Cairo's brother, is an entrepreneur in real-estate brokerage with the company Il Metro Immobiliare, with offices in Milan and in Liguria.

Antonio Magnocavallo has been a professional civil and corporate lawyer in Milan since 1961 and is currently in a partnership (Magnocavallo e Associati). He is currently board member of Fondazione Gruppo Credito Valtellinese and chairman of a number of large foundations and associations. Mr. Magnocavallo has provided legal assistance and consultancy to the Cairo Communication Group since 1998.

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

Roberto Rezzonico, chartered accountant, is currently Chairman of the Board of Statutory Auditors or statutory auditor in a number of important industrial groups (Nestlè Italiana S.p.A., Nespresso Italia S.p.A., Siemens Holding S.p.A., Osram S.p.A., Pirelli Labs S.p.A.).

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

4.3 Role of the Board of Directors

The Board of Directors met 7 times during the year. The Board meetings lasted an average of 2 hours. Six meetings are planned for the current year, one has already taken place. To ensure that the Directors be prepared, all the documents and information on the facts taken into consideration by the Board are sent to them via e-mail in reasonable advance before the date of the meeting.

The Board of Directors holds the power to (i) purchase, sell or exchange company branches, and companies for amounts in excess of Euro 5 million and (ii) the power to furnish guarantees and endorsements for amounts in excess of Euro 2 million. These powers, or the following powers, cannot be delegated to individual directors:



-
- a) examination and approval of company strategic, business or financial plans or those relating to the Cairo Communication Group;
 - b) Group's system of corporate governance or structure;
 - c) allocation or revocation of powers to managing directors;
 - d) examination and approval of (i) extraordinary transactions, and (ii) transactions involving a potential conflict of interest.

The Board of Directors has also identified the significant transactions o that may only be approved by the Board.

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

- i) disposals of intangible assets or property, plant and equipment, even those with no related cost or payment;
- ii) granting of either temporary or permanent rights relating to intangible assets (trademarks, brands, copyrights, databases, etc.)
- iii) providing work or services;
- iv) granting or obtaining finance and guarantees (including letters of patronage);
- v) any other action pertaining to property rights.

Significant transactions are those that must be disclosed to the market in accordance with art. 114 of the Consolidated Finance Act, by their nature, procedure or the nature of the counterparty, or those with a value of over Euro 7.5 million. The signing of advertising sales contracts, the Company's typical activity, is not deemed a significant transaction if it does not involve cost commitments or other financial commitments beyond the granting of a percentage of the revenue generated by the contract to the media owner.

With regard to self-regulation, these transactions are the responsibility of the Directors and as such are subject to prior approval by the Board of Directors. If it is not possible for the Board of Directors to meet, for reasons of time pressure or other particular circumstances, the Chairman of the Board of Directors of the Company can carry out the transaction pending the approval of the Board of Directors which would then meet at the earliest possible opportunity.

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



During the year, the Board:

- evaluated the appropriateness of the organizational, administrative and general accounting structure of the company and of its strategically important subsidiaries (based on their contribution to Group profits and revenue, Cairo Editore S.p.A., Cairo Pubblicità S.p.A. and Cairo Publishing S.r.l.), with particular reference to the internal control system and the management of conflicts of interest; such valuation was undertaken on the basis of information and evidence gathered through investigation performed by the Internal Control Committee and through contribution by Company Management and the control manager,
- after examining the proposals of the relevant committee and having taken council of the Board of Statutory Auditors, and prior to the non-binding opinion of the Related Party Committee, the Board of Directors determined remuneration to the managing directors and the directors with specific responsibilities, and in addition, wherever not provided for at the Shareholders' Meeting, the division of total remuneration due to the members of the Board of Directors,
- evaluated the general management trend, taking particular account of information received from the bodies responsible, in addition to comparing results achieved with forecasts.

During its meeting of 3 May 2011, the Board carried out an evaluation on the size, composition and role of the Board of Directors itself and of its committees, noting that:

- the size of the Board of Directors (eight members in terms of the bylaws requirement of between five and eleven members) appears reasonable, taking into consideration the size and nature of corporate activities;
- the composition of the Board of Directors, considering that the three executive directors, with specific experience in company management, one of whom in finance, are supported by five non-executive directors, of whom three are independent, two are lawyers and two are chartered accountants, is appropriate;
- the role of the Board of Directors and its Committees, as shown in the above table, appears consistent with the size and nature of corporate activities with sufficient delegation of powers granted to the Chairman and to one other executive director.

The Meeting did not authorize, generally or preventively, derogations to the non-competition clause provided for by art. 2390 of the Civil Code.



4.4 Management

Given the size of the Group and Parent Company, the main executive and managerial powers, except those to (i) purchase or relocate company branches or companies for amounts in excess of Euro 5 million and (ii) to provide guarantees of every kind to third parties and for amounts in excess of Euro 2 million, without prejudice, in any case, to the competences of the Board regarding significant transactions as identified by the Board and mentioned above, are entrusted to the Chairman Urbano Cairo, who is the main person in charge of defining corporate strategies and management.

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

Director Marco Pompignoli is responsible for overseeing and supervising the Group's administration, finance and management control functions, which include the power to manage and coordinate the activities of staff working in these areas and to coordinate the activities of the Issuer's legal and tax consultants, in any case, in accordance with the instructions given by the Chairman and promptly informing the Board.

The Chairman is also the controlling shareholder of Cairo Communication.

The delegated bodies provide appropriate and regular information every three months to the Board and to the Statutory Auditors. There is no executive committee.

4.5 Other executive directors

There are no other executive directors.

4.6 Independent Directors

Marco Janni, Roberto Rezzonico and Mauro Sala are independent directors, appointed as mentioned earlier by the shareholders at their Meeting of 28 April 2011.

Following their appointment, during the meeting of 3 May 2011, the Board of Directors and Board of Statutory Auditors verified that they met the requirements to be deemed independent directors, pursuant to art. 148, paragraph 3, Legislative Decree no. 58 of 24 February 1998, and



to the subsequent requirements of the Corporate Governance Code issued by Borsa Italiana S.p.A.

Specifically, regarding the requirements of independence of directors Marco Janni and Roberto Rezzonico (who have been directors of the company for more than nine years out of the last twelve) and of Mauro Sala (who has been statutory auditor of the company for more than nine years out of the last twelve), formally acknowledging the opinion expressed, upon the Company's request, by Professor Matteo Rescigno (full professor of commercial law at the University of Milan), with the abstention of the persons involved, given the persistence of the requirement of independence under art. 148, paragraph 3, of the TUF, and non-recurrence of the most typical cases regarding absence of independence listed in application criterion 3.C.1 of the Corporate Governance Code (letters from a) to h), except for sub e), given the non-binding nature - for the purposes of attributing the requirements of independence – of the application criteria, considering in general terms the absence of objective and unambiguous elements proving the existence of particular relations with the Issuer or with subjects linked with the Issuer (such as the majority shareholder, etc.) and, in particular:

- (i) the absence of commercial, professional or personal relations between Marco Janni, Roberto Rezzonico and Mauro Sala, on the one side, and the Issuer, and companies belonging to the same group and the controlling partner, on the other, and
- (ii) the acknowledged professional and moral qualities of the directors in question, renowned professionals with their own businesses;
- (iii) the low incidence of remuneration decided by the Shareholders to the Board of Directors, which includes remuneration for the participation of certain directors in the committees as per law and the bylaws, with respect to the overall amount of the fees of these directors;
- (iv) given also the interest of the Company to still avail itself of the directors' specific experience and in-depth knowledge of the Company's inner workings gained during their term in its various bodies,

confirmed the persistence of the requirement of independence of the foregoing directors. The Board of Statutory Auditors formally acknowledged the decision and verified the proper application of the criteria adopted by the Board of Directors to assess the independence of its members.



The number of independent directors, and their function, are deemed appropriate in relation to the size of the Board of Directors and the Company's activities, and to allow the establishment of the Remuneration, Internal Control and Related Party Committees (for further information, see § 8 and § 10 and § 12 below).

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

4.7 Lead Independent Director

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

5 Treatment of privileged information

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

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

In addition, the Company banned "relevant persons", with binding effect, from trading in Company shares or related financial instruments, being purchase, sale, subscription or



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

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

- a) Confidential information (Information) is taken to mean every piece of information and news which relates to Cairo Communication S.p.A. (the Company) and its subsidiaries, both direct and indirect (the Cairo Group) which is not in the public domain or is by its nature confidential or of exclusive pertinence to the Cairo Group. Even if expressed as a personal opinion, a piece of information which could affect the price of Group company financial instruments if made public (i.e. price sensitive) is deemed Information
- b) The management of Information is the sole responsibility of the Company Chairman. In particular, the communication of Information to Consob, the Communications Regulatory Authority (Agcom), Borsa Italiana S.p.A., the media, press agencies, public relations consultants, financial analysts, journalists and any other administrative or regulatory authorities overseeing the activities of the Cairo Group must be carried out exclusively by the Company Chairman directly or occasionally through representatives chosen by him. All Directors and members of the Board of Statutory Auditors must show the utmost discretion in relation to Information acquired while carrying out their duties and must respect Company procedures relating to the publication of Information.
- c) Directors are responsible for the secrecy of documentation given to them in advance of meetings of the Company Board of Directors. In any case, Directors must exercise discretion in relation to Information acquired while performing their duties.
- d) The Chairman takes all measures necessary to ensure that Management and other Cairo Group employees do not transmit Information to third parties if not by law or



regulation, and in respect of market best practices, in order to ensure that discretion is exercised in relation to Information acquired while performing their duties.

- e) Should a Director be bound to disclose a piece of Information by the civil or legal authorities, he must communicate this to the Chairman immediately unless otherwise bound by law or the relevant authority.
- f) Further to the provisions relating to the publication of Information, in order to transmit any other information to third parties, or to publish an interview to the media that relates partially or completely to the Cairo Group, Company Directors and Statutory Auditors must obtain specific prior approval of the Chairman.

6 Board of Directors' Committees

The Board of Directors has set up three committees within the Board itself – the Remuneration Committee, the Internal Control Committee and the Related Party Committee (see section 12 below).

7 Appointment Committee

The Board of Directors has decided not to proceed with the formation of an Appointment Committee, optional under the Corporate Governance Code, as it was confirmed that the restricted composition of the Board of Directors is in a position to carry out the functions of the Nomination Committee.

8 Remuneration Committee

On 3 May 2011, the Board of Directors appointed, for a three-year period, until approval of the financial statements at 31 December 2013, the members of the “Remuneration Committee”, composed of non-executive directors Antonio Magnocavallo, Chairman, Roberto Rezzonico (independent) and Marco Janni (independent). Its functions include:

- formulation of proposals to the Board of Directors regarding remuneration to executive directors, of other directors with particular responsibilities and of key management personnel;
- to periodically evaluate the adequacy, overall consistency and application of the general policy adopted for remuneration to executive directors, of other directors with particular responsibilities and of key management personnel, using for the latter



information furnished by the managing directors, and formulating proposals to the Board of Directors on the matter;

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

The functioning of the Remuneration Committee is governed by a policy approved by the Board of Directors. The Board of Directors has made financial resources available to the Remuneration Committee for the execution of its functions.

In 2011, the Remuneration Committee met twice, for about 1 hour and with all members present. At least two meetings are scheduled this year. Minutes are kept of every meeting. The secretary of the Committee is Marco Bisceglia.

On 3 May 2011, the Board of Directors allocated Euro 20 thousand as annual remuneration to the Remuneration Committee and Euro 2 thousand to the secretary.

9. Directors' Fees

The general policy for directors' fees is illustrated in the Remuneration Report, prepared pursuant to art. 123-ter of the TUF, and will be submitted to the Shareholders at their Meeting held to approve the 2011 financial statements, to which reference is made for all the details.

At their meeting of 12 March 2012 the Board of Directors' established a general remuneration policy for the year 2012 (illustrated in Section I of the Remuneration Report) for executive directors, other directors with particular responsibilities and key management personnel, which sets out, among other things, the guidelines for the:

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



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- b) appropriateness of the fixed component for a director's duties, should the performance targets indicated by the Board of Directors not be met and the resulting variable component not be paid,
 - c) measurability of performance targets and connection of these targets to the creation of value for shareholders in the medium-long-term,
 - d) deferral of part of the variable component, consistent with the risk profiles associated with the company's business.

Incentivized remuneration criteria have gradually been introduced over the years for executive directors and key management personnel.

For financial year 2011, the Board of Directors, on 12 May 2011, upon the proposal of the Remuneration Committee, and with the favourable opinion of the Related Party Committee, decided, pursuant to art. 2389 of the Italian Civil Code, paragraph III, on:

- fees to Chairman Urbano Cairo, CEO Uberto Fornara and Director Marco Pompignoli, holding particular responsibilities, amounting respectively to Euro 480 thousand, Euro 60 thousand and Euro 90 thousand,
- an incentivized variable component mechanism for CEO Uberto Fornara.

The Board, instead, deemed not to decide on variable fees to Urbano Cairo, Chairman and holder of the main executive and management powers, and to Marco Pompignoli, who oversees and supervises Group administration, finance and management control, since Urbano Cairo is the controlling shareholder and, regarding Marco Pompignoli, on account of the roles held. The Board, upon proposal by the Remuneration Committee and with the favourable opinion of the Related Party Committee, had, instead, deemed it appropriate to consider for these senior figures a supplement to their annual salary decided *ex post*, based on the company's business results, for the most part achieved as a result of their work.

In 2011, the variable component of fees to CEO Uberto Fornara, amounting to 395 thousand (approximately 45% of his total Group remuneration), was linked to the achievement of targets regarding increase in advertising revenue and containment of variable costs.

Upon proposal by the Remuneration Committee, and with the favourable opinion of the Related Party Committee, based on the overall quality assessment of activities performed, the Board of Directors, on 14 February 2012, established for 2011:



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- for Chairman Urbano Cairo, supplementary fees amounting to Euro 200 thousand (approximately 17% of his total Group remuneration).
 - administrative and financial director Marco Pompignoli, supplementary fees amounting to Euro 110 thousand (approximately 20% of his total Group remuneration).

Directors' fees for the year 2011 are illustrated in Section II, Part II of the Remuneration Report.

Marco Pompignoli is also the Financial Reporting Manager.

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

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

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

Agreements are in place between the Company and Uberto Fornara for payment of an annual remuneration equal to 150% solely of his gross salary in his capacity as director, which will become effective upon termination of his relationship prior to non-competition commitments in the year following termination of his employment with the Company.

10. Internal Control Committee

On 3 May 2011, the Board of Directors appointed for a three-year period (until approval of the financial statements at 31 December 2013) the members of the Internal Committee, composed of non-executive directors Roberto Rezzonico (independent), Chairman, Mauro Sala (independent) and Antonio Magnocavallo. The Internal Control Committee, in accordance with the Corporate Governance Code, is currently formed by non-executive directors. Roberto Rezzonico has appropriate experience in accounting and financial issues.

The role of the Internal Committee is to assist the Board of Directors in the following matters:

- i) define the guidelines of the internal control system, so that the main risks affecting the Company and its subsidiaries are correctly identified and appropriately



measured, managed and monitored, identifying the extent to which these risks can be tolerated to assure sound and accurate management of the company;

- ii) appoint an executive director to supervise the operation of the internal control system;

the Committee also

- iii) evaluates, together with the Financial Reporting Manager and with the auditors, the proper application of accounting policies, and in the case of groups, overall consistency of the consolidated financial statements;
- iv) upon request by the executive director in charge, to express an opinion on specific aspects relating to the identification of the main corporate risks and the planning, implementation and management of the internal control system;
- v) examines the action plan and reviews periodic reports prepared by the internal control manager;
- vi) evaluates the results illustrated in the auditors' report and, if applicable, in the management letter;
- vii) monitors the effectiveness of the audit process;
- viii) reports to the Board of Directors, at least every six months, on the date of the approval of the financial statements and half-year reports, on their activities carried out and on the appropriateness of the internal control system.

To ensure correct performance of their duties, the Committee has the power to access all necessary corporate information and to interview all necessary corporate personnel, in addition to make reference to external consultants, in accordance with the terms established by the Board of Directors. The secretary of the Committee is Marco Bisceglia.

In 2011, the Internal Control Committee met twice. Minutes of the meetings, lasting for about 3 hours, were recorded. Five meetings are scheduled this year, and one has already been held.

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



The operation of the Internal Control Committee is governed by an appropriate regulation approved by the Board of Directors. The Board of Directors provides the Committee with sufficient resources to fulfill its duties.

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

On 3 May 2011, the Board of Directors allocated Euro 20 thousand as annual remuneration to the Internal Control Committee and Euro 2 thousand to the secretary.

11. Internal control system

Purposes and objectives

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

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

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

- Position Paper Andaf “Financial Reporting Manager”;
- Position Paper AIIA “Law no.262 on the Protection of Public Savings”;
- Confindustria guidelines “Guidelines for the functions performed by the Financial Reporting Manager pursuant to art. 154-bis TUF”.

The Board of Directors, assisted by the Internal Control Committee, defines the policies of the internal control system, so that the primary risks to which the Company and its subsidiaries are



exposed are identified, evaluated, managed and monitored correctly, identifying the extent to which these risks can be tolerated to assure sound and accurate management of the company.

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

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

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

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

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

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

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

- a) Identification and evaluation of risks related to financial information;
- b) Identification of controls upon identification of risks;



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- c) Evaluation of controls upon identification of risks.

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

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

The quantitative analysis, aimed at the identification of the relevant entries, is performed through the application of the concept of “materiality” to the combined items in the trial balance of the Cairo Communication Group. The materiality threshold was determined as a fixed percentage in compliance with the indications in article 2621 of the Italian Civil Code (replaced by Law no. 262 of 28 December 2005).

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

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

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

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

- b) Identification of the controls corresponding to the identified risks: the identification of the controls necessary for the mitigation of the ascertained risks is performed associating the risks identified to the relative control objectives, meaning the group of



objectives that the financial reporting control system intends on achieving in order to ensure a true and correct representation.

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

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

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

Each test, with its respective outcome, is documented by way of the formalization of a schedule and filing of the figures.

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

With at least annual frequency, the financial reporting manager confers with the internal control committee and the board of statutory auditors and communicates with the company supervisory boards, regarding the methods with which the suitability evaluation and the application of the controls and administrative - accounting procedures have been conducted, then expressing his own evaluation on the suitability of the administrative - accounting control system.

Roles and functions

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

The Manager is also responsible for preparing adequate administrative and accounting procedures for the formation of the separate and consolidated financial statements, and for providing subsidiaries, considered as significant entities for the preparation of the Group’s



consolidated financial reporting, with instructions on how to perform an appropriate evaluation of their accounting control system.

The risk management and internal control over financial reporting also involves other subjects typical of the Company's Corporate Governance structure, such as the Board of Directors, the Internal Control Committee, the internal control manager and the Board of Statutory Auditors.

Overall evaluation of the appropriateness of the internal control system

Based on the information and evidence gathered following an enquiry conducted by the Audit Committee, supported by Management and by the internal audit manager, the Board of Directors deems the internal audit system to be, as a whole, appropriate for allowing, with reasonable assurance, achievement of the Company's objectives.

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

11.1 Executive director responsible for the internal control system

Marco Pompignoli, executive director, is responsible for overseeing the operation of the internal control system. In 2011, he was responsible for:

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

11.2 Internal control manager

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



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

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

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

In 2011, the activities of the internal control manager mainly focused on verifying the updating and implementation process of corporate procedures. He also performed internal control functions and is member of the Supervisory Board pursuant to Legislative Decree 231/2001, as indicated in section 11.3 below.

11.3 Organizational Model pursuant to Legislative Decree 231/2001

On 31 March 2008, the Board of Directors adopted a Model for organization, management and control pursuant to Legislative Decree 231/2001 (Organizational Model), thereby providing itself with a set of principles of conduct and procedures to comply with the requirements of Legislative Decree 231/2001, both in terms of the prevention of crime and illicit acts, and in terms of control measures to ensure implementation of the Model itself. A similar model was also adopted on 13 November 2008 by the subsidiaries Cairo Pubblicità S.p.A. and Cairo Editore S.p.A.

As part of the activities for verifying the application and updating of its Organizational Model, in 2009 the Supervisory Board deemed it appropriate to propose the updating of the Model to add, in the general and special sections, a specific part involving crimes regarding handling of stolen goods and money laundering, and one involving computer crimes, which had been left out in the original version.

On 30 July 2009, the Board of Directors approved the new model, which acknowledges such adjustments. A similar new organization model was adopted on 13 November 2009 by the subsidiaries Cairo Pubblicità S.p.A. and Cairo Editore S.p.A.



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

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

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

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

In 2011, the members of the Supervisory Board of Cairo Communication S.p.A. were Ezio Micheli, internal control manager, Giacomo Leone and Marco Bisceglia, Chairman.

11.4 Audit Firm

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



11.5 Financial Reporting Manager

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

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

12. Related party transactions

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

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

Pursuant to the Regulation, Cairo Communication is considered a “small company”, since its assets and its revenue shown in the consolidated financial statements at 31 December 2010, are lower than Euro 500 million, amounting respectively to approximately Euro 189 million and to approximately Euro 244 million. For such companies, the Regulation provides for the possibility to “apply to transactions of greater importance, as a waiver to art. 8, a procedure identified pursuant to art. 7 of the Regulation” (transactions of lesser importance).

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

- a) the definition of related parties and transactions;



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- b) roles and responsibilities;
 - c) transactions of greater importance, being those in which at least one of the ratios of significance (*equivalent value relevance ratio, assets and liabilities relevance ratio*) set out in the Regulation are higher than the threshold of 5%, or of 2.5% for transactions whose purpose is the disposal of intangible assets of strategic importance;
 - d) the exemptions provided in the Regulation and opted by the Company, mainly transactions of smaller amounts (Euro 150,000), remuneration plans pursuant to art. 114-bis of the TUF (which comply with the obligations regarding transparency and substantial and procedural correctness provided by the temporary provisions in force), regular transactions concluded under market-equivalent or standard conditions and the transactions with and between subsidiaries and/or associates;
 - e) the procedures regarding the preliminary proceedings and approval of related party transactions and the regulations in cases where the company examines or approves transactions with subsidiaries;
 - f) the procedures and timing adopted to provide information on the transactions, and the related documentation, to the directors or independent directors who express opinions on related party transactions, as well as to the management and independent advisors, before their approval, during and after their execution.

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

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

Regarding transactions of greater importance falling under the competence of the Shareholders, in the event the resolution proposal is approved, notwithstanding contrary advice by the Related Party Committee (or by other bodies), the transaction is not carried out if the majority of



unrelated shareholders votes against the transaction, provided the unrelated shareholders attending the Meeting represent at least 10% of the share capital with voting right (whitewash mechanism). For such purpose, in the resolution proposal, the Board adds a provision that specifies that the effectiveness of the transaction is subject to the foregoing majority.

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

- substantial correctness means correctness of the transaction from an economic point of view when, for instance, the transfer price of goods is in line with market prices and, more in general, when the transaction has not been influenced by the related party relationship, or at least said relationship has not determined the acceptance of conditions that are unjustifiably penalizing for the Company;
- procedural correctness means compliance with procedures aimed at ensuring the substantial correctness of the transaction and, therefore, observance of the rules through which it is at least potentially ensured that related party transactions do not determine any unjustified prejudice to the reasons of the Company and its investors.

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

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

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

- (i) otherwise than under the case indicated in the following point (ii), its members are non-executive directors, the majority of whom are independent. In such case, the Committee may coincide, as it does today, with the Internal Control Committee;
- (ii) in the event at least three independent directors have been elected to the Board of Directors, the members of the Committee are all independent directors.



On 3 May 2011, the Board of Directors appointed the members of the Related Party Committee, composed of the three independent directors Marco Janni, Chairman, Roberto Rezzonico and Mauro Sala, and allocated Euro 20 thousand as annual remuneration to the Related Party Committee. The Board also allocated Euro 2 thousand as annual remuneration to the secretary of the committee, Marco Bisceglia.

The Committee is required to perform all the tasks indicated in the Regulation and in the procedures. Specifically, its task is to release a motivated opinion on the interest of the Company (or, if the case, of its subsidiaries) on the execution of related party transactions and on the convenience and substantial correctness of conditions thereto. If required by the nature, extent and characteristics of the transaction, the Related Party Committee may also be assisted by one or more independent experts of its choice, whose fees are paid by the Company, through the acquisition of specific reports and/or fairness and/or legal opinions.

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

13. Appointment of the Board of Statutory Auditors

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

Specifically:

- members of the Board of Statutory Auditors are appointed on the basis of lists that must be submitted at the registered office of the Company within 25 days prior to the Shareholders' Meeting called to decide on the appointment of the members of the Board of Statutory Auditors, made available to the public at the registered office, on www.cairocommunication.it and in accordance with the other procedures provided by law and the regulations, at least 21 days before the date of the Meeting. Upon expiry of the time limit of 25 days prior to the Meeting, in the event only one list has been submitted, or lists submitted by shareholders who are connected, pursuant to applicable provisions, lists may be submitted until the fourth day (as set forth in the bylaws) subsequent to such date. In this event, the foregoing 2.5% threshold (or other minimum amount set by prevailing laws) is reduced by half;



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- lists admitted to the voting are those submitted by shareholders who, either individually or jointly with other shareholders, represent at least 2.5% of the shares entitled to vote in the ordinary meeting, or other minimum amount set by Consob. Ownership of the minimum stake required for the submission of lists is determined on the basis of the shares recorded in the name of the shareholder on the date the lists are filed with the Company; candidates holding the position of statutory auditor in 5 (five) other listed companies (excluding their subsidiaries, although listed) or holding a number of positions exceeding the cumulative limit prescribed by law and by Consob, or failing to possess the requirements of integrity and professionalism established by prevailing laws, shall not appear in the lists. Each list shall be accompanied a) by information regarding the identity of the shareholders who have submitted the list, indicating total percentage of shares held, and by prescribed certification on ownership of the stake, which may be submitted also subsequent to filing, provided within the time limit set for publication of the lists; b) by a statement of the shareholders other than those who hold, also jointly, a controlling or relative majority interest, declaring they have no relationship of connection, pursuant to applicable provisions; c) by detailed information regarding the personal and professional qualifications of the candidates, and a statement with which each candidate accepts nomination and attests, under own responsibility, that there are no reasons for ineligibility or incompatibility with the position, and confirms possession of the requirements prescribed by law and the bylaws for the respective positions.
 - the chairman of the board of statutory auditors shall be the candidate indicated on top of the list that has received the second-highest number of votes. The bylaws do not provide for the appointment of more than one minority statutory auditor, nor do they provide for the possibility of drawing a number of alternate auditors from the minority list to replace the minority member greater than the minimum required by Consob.
 - should two or more lists reach a tie, the prevailing list shall be the list possessing the largest shareholding or, in the event of a tie, the highest number of shareholders.

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

At their Meeting on 28 April 2011 the Shareholders appointed the Board of Statutory Auditors for a three-year period, until the approval of the financial statements at 31 December 2013, on the basis of a single list presented by the major shareholder, UT Communication S.p.A.



approved with the favourable vote of 75.791% of the share capital. The Board of Statutory Auditors comprises three standing auditors, Marco Moroni, Chairman, Maria Pia Maspes and Marco Giuliani and two alternate auditors, Mario Danti and Enrico Tamborini, who have certified that they know of no relative cause of ineligibility or incompatibility, and that they meet the requirements for the position under current legislation, specifically, the requirements of independence provided by art. 148, paragraph 3 of the TUF, and the requirements of independence provided by industry regulations if applicable on account of business activities performed.

Board of Statutory Auditors							
Post	Members	From	Until	List (M/m)*	Independence as per Code	** (%)	Number of other posts ***
Chairman	Marco Moroni	01/01	31/12	M	X	100	14
Standing auditor	Marco Giuliani	28/04	31/12	M	X	100	9
Standing auditor	Maria Pia Maspes	01/01	31/12	M	X	100	12
Alternate auditor	Mario Danti	01/01	31/12	M	X	n/a	n/a
Alternate auditor	Enrico Tamborini	01/01	31/12	M	X	n/a	n/a
-----AUDITORS WHOSE POST HAS EXPIRED DURING THE YEAR -----							
Chairman	Mauro Sala	01/01	28/04	M	X	100	
Alternate auditor	Ferdinando Ramponi	01/01	28/04	M	X	n/a	n/a
<i>Quorum</i> required for the submission of lists at previous appointment: 2.5%							
No. meetings held during the year: 5							

NOTES:

* This column shows M/m depending on whether the member was elected by the majority (M) or minority (m) list

** This column shows the participation percentage of statutory auditors to the BoA meetings (n. of times present/n. of meetings held during their term).

***This column shows number of directorships or statutory auditor positions deemed relevant pursuant to art. 148 bis of the TUF.

In 2011, five meetings were held each lasting approximately 2 hours. Five meetings are scheduled for the current year, one has already been held.

The Board of Statutory Auditors assessed the independence of its members following their appointment and then on an annual basis. For its assessments, it based itself, among other criteria, also on those prescribed by the Corporate Governance Code regarding independence of directors.

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



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

15. Investor Relations

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

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

16. Shareholders’ Meetings

The functioning of the Shareholders’ Meeting, its main powers, shareholders’ rights and terms of their exercise are those prescribed by the provisions of law and regulations applicable, as recently amended by Legislative Decree 27/2010 regarding shareholders’ rights.

Shareholders’ attendance of meetings and their representation is governed by the provisions of law and the regulations. Art 12 of the bylaws states as follows: *“Shareholders’ attendance of meetings and their representation is governed by the provisions of law and the regulations. In particular, shareholders authorized to cast a vote may send notice by electronic means of the proxies issued pursuant to the prevailing laws, by accessing a specific section on the Company’s website according to the procedures to be indicated in the notice of call of shareholders’ meetings.”*

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

Voting by correspondence, e-voting and/or voting using audiovisual links is not envisaged.



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

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

17. Further corporate governance practices

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

18. Changes after year end

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

Treasury shares

Movements in treasury shares are disclosed in Note 20 to the separate financial statements of the Parent Company.

Stock Option

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

Shares held by directors, statutory auditors and general managers

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



Other information

Research and development activities

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

Human resources

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

Staff turnover during 2011 and its composition as at 31 December 2011 can be analyzed as follows:

Description	01/01/2011	Recruitments	Terminations	Advancements	31/12/2011
<i>Open-ended contracts</i>	258	23	(13)	-	268
Senior managers	15	-	(1)	-	14
Managers	19	1	-	-	20
Employees	125	16	(8)	-	133
Journalists and freelance	99	6	(4)	-	101
<i>Fixed term contracts</i>	3	9	(5)	-	7
Senior managers	-	-	-	-	-
Managers	-	-	-	-	-
Employees	2	4	(4)	-	2
Journalists and freelance	1	5	(1)	-	5
Total	261	32	(18)	-	275

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



	Senior managers	Managers	Employees	Journalists
Men (number)	14	13	38	42
Women (number)	-	7	97	64
Average age	50	47	41	45
Seniority	10	9	9	10
Open-ended contracts	14	20	133	101
Fixed term contracts	-	-	2	5
Other	-	-	-	-
Graduates	11	8	34	54
Diploma holders	2	12	81	49
Middle school graduates	1	-	20	3

Most of the employees (200) work in the publishing segment. Two out of seven editors-in-chief of Group publications are women.

The advertising segment draws on a sales force composed 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 incentives.

The Group is committed to pursue health and safety objectives at the workplace.

There were no accidents in the workplace or charges for occupational diseases during the year.

Environment

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

Privacy

Regarding privacy regulations, Cairo Communication and Group companies updated 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, both the technical and organizational measures and methods, relative to the conservation of the identifying details of the system administrators and to the verification of the



work performed by them, to guarantee the monitoring of the work of the same, were adopted - adding to those that were already operative where necessary.

EVENTS AFTER THE REPORTING PERIOD

As mentioned earlier, in 2011, the short and medium-term economic uncertainty began to deteriorate – starting especially from autumn – reflecting the overall economic-financial scenario.

To date, there remains uncertainty over the period required for a return to normal market conditions. According to AC Nielsen figures, advertising investments in Italy in 2011 amounted to approximately Euro 8.6 billion, down 3.8% versus the previous year (in particular, -3.7% the magazine advertising market, and -3.1% the TV advertising market versus 2010).

Against such a harsh backdrop, in 2011 the Group's operating results surged versus 2010, thanks to the high quality of its publications and of the media under concession, and to its corporate and publishing strategy, which helped implement cost-curbing measures to increase the effectiveness and efficiency of production, publishing and distribution processes.

In 2012, the Cairo Communication Group will continue to develop its core businesses:

- publishing, led by Cairo Editore and Cairo Publishing, with efforts geared towards:
 - o returning to a strategy of development through the study, planning and launch of new publications, which had marked its strong growth in the 2003-2006 four-year period. In October, Cairo Editore chose Riccardo Signoretti and Marisa Deimichei as the editors-in-chief of two new weeklies. The first, “Settimanale Nuovo”, led by Riccardo Signoretti, debuted on newsstands on 19 January 2012 at a launch price of 50 cents. The second, a women's weekly, will be launched in 2012;
 - o confirming the high circulation levels of the publications, pushing ahead with the efforts to improve the efficiency levels achieved in curbing production, publishing and distribution costs;
- advertising sales on TV, on the Group's publications and on Prima Comunicazione, on the Internet and at the “Olimpico” stadium in Turin for Torino FC, with the aim of increasing advertising revenue, thanks also to the strong rise achieved in audience shares in 2011 by LA7, and to the significant circulation levels boasted by the Group's publications, both in absolute terms and versus competition in its areas of operation.

Looking at the publishing segment, the first 6 issues of “Settimanale Nuovo” posted average sales of approximately 419 thousand copies.



As for advertising, as mentioned earlier, in 2011 LA7 audience shares confirmed the trend that had started in autumn 2010 and increased by 24.4% (3.82% average all-day share versus 3.07% in 2010).

Based on the order book as at 9 March 2012 for advertising aired and to be aired on LA7 in the January-March three-month period of 2012, amounting to Euro 50.4 million, the revenue achieved in the same three-year period of 2011 (Euro 39.6 million) has already been exceeded by over 27%, with a consolidation, as at the same date, of audience shares versus the same period of the previous year.

Given the high quality of the Group's publications and of the media under concession, and taking also into account the costs incurred for launching the two new publications, the target for 2012 to increase the operating results of 2011 is considered feasible. However, the evolution of the general economic situation could affect the full achievement of this target.

For the Board of Directors,
Chairman
Urbano Cairo



Dear Shareholders,

At the meeting held on 12 March 2012, the Board of Directors resolved to submit the financial statements as at and for the year ended 31 December 2011 to the approval of the Shareholders and to propose the distribution of a dividend of 0.30 Euro per share inclusive of tax, Euro 0.15 of which already distributed as an interim dividend under the decision of the meeting of the Board of Directors of 30 November 2011.

Shareholders are invited:

- to approve the financial statements as at and for the year ended 31 December 2011;
- to resolve on the proposal to distribute to shareholders, with the exception of treasury shares held the evening prior to the detachment date, a dividend of 0.30 Euro per share, inclusive of tax, Euro 0.15 of which already distributed as an interim dividend under the decision of the meeting of the Board of Directors of 30 November 2011:
 - allocating for the dividend total profit for the year of Euro 19,257,572, considering the sum of Euro 11,695,811 already distributed as an interim dividend, hence distributing a further Euro 7,561,761;
 - drawing, for the difference, amounting to Euro 4,134,050, on the share premium reserve, which may be lower or higher depending, respectively, on the lower or higher amount of treasury shares, if any, held by the Company on the evening prior to the detachment date, than those held as at 12 March 2012, which were 371,326 shares.

If approved by the Shareholders, the balance of the dividend, amounting to Euro 0.15 per share, will be distributed with detachment date on 7 May 2012 and payable on 10 May 2012.

For the Board of Directors,

Chairman

Urbano Cairo



CAIRO COMMUNICATION

Consolidated Financial Statements and notes thereto



Consolidated income statement for the year ended 31 December 2011

€ thousands		2011	2010
Revenue	1	281,549	243,560
Other revenue and income	2	2,567	2,871
Non-recurring income from Cairo-Telepiù arbitration	2	0	6,792
Changes in finished goods	3	(124)	(35)
Raw materials, consumables and supplies	4	(24,501)	(25,243)
Services	5	(192,988)	(165,867)
Use of third party assets	6	(2,285)	(2,422)
Personnel expense	7	(23,630)	(21,753)
Amortization, depreciation, provisions and impairment losses	8	(3,584)	(3,738)
Other operating costs	9	(1,080)	(1,078)
Operating profit		35,924	33,087
Loss on investments	10	(765)	1
Net financial income	11	1,327	349
Pre-tax profit		36,486	33,437
Income tax	12	(13,027)	(12,640)
Profit from continuing operations		23,459	20,797
Loss from discontinued operations	13	(10)	(67)
Profit for the year		23,449	20,730
- Owners of the parent		23,446	20,729
- Non-controlling interests - discontinued operations		0	0
- Non-controlling interests - continuing operations		3	1
		23,449	20,730
Earnings per share (€)			
- Earnings per share - continuing and discontinued operations	14	0.301	0.267
- Non-controlling interest - continuing operations	14	0.302	0.268

Consolidated statement of comprehensive income for the year ended 31 December 2011

		2011	2010
Profit for the year		23,449	20,730
Loss on measurement of available-for-sale financial assets	17	(8)	(1,775)
Total comprehensive income for the year		23,441	18,955
- Owners of the parent		23,438	18,954
- Non-controlling interests - from discontinued operations		0	0
- Non-controlling interests - continuing operations		3	1
		23,441	18,955



Consolidated statement of financial position as at 31 December 2011

€ thousands			
Assets		31 December 2011	31 December 2010
Property, plant and equipment	16	2,724	2,656
Intangible assets	17	9,282	9,552
Investments	18	1,482	2,255
Non-current financial assets		58	64
Deferred tax assets	19	4,734	4,480
Total non-current assets		18,281	19,007
Inventories	20	3,389	2,952
Trade receivables	21	108,086	93,942
Receivables from parents	31	1,467	63
Other receivables and other current assets	22	7,521	14,792
Securities and other current financial assets	23	0	79
Cash and cash equivalents	24	54,701	58,260
Total current assets		175,164	170,088
Total assets		193,445	189,095
Equity and liabilities		31 December 2011	31 December 2010
Share capital		4,074	4,074
Share premium reserve		49,586	51,081
Prior years losses and other reserves		(1,683)	(5,700)
Interim dividend of Parent		(11,696)	0
Profit for the year		23,446	20,729
Equity attributable to the owners of the parent		63,727	70,184
Non-controlling interests and reserves		3	0
Total equity	25	63,730	70,184
Post-employment benefits	26	3,898	3,891
Provisions for risks and charges	28	2,182	2,124
Total non-current liabilities		6,081	6,015
Loans and borrowings	29	0	0
Trade payables	30	107,029	97,787
Payables to the parent	31	2,156	3,928
Tax liabilities	32	2,005	2,281
Other current liabilities	33	12,444	8,900
Total current liabilities		123,633	112,896
Total liabilities		129,714	118,911
Total equity and liabilities		193,445	189,095



Consolidated statements of cash flows

€ thousands

	2011	2010
CASH AND CASH EQUIVALENTS	58,260	43,741
OPERATING ACTIVITIES		
Profit for the year	23,449	20,730
- non-recurring	0	3,670
Amortization/Depreciation	842	975
Changes in intangible assets due to arbitration	0	3,152
- non-recurring	0	3,152
Impairment losses on investments	765	0
Net financial income	(1,327)	(350)
Income tax	13,027	12,622
- non-recurring	0	3,122
Change in post-employment benefits	7	78
Change in provisions for risks and charges	58	185
Cash flow from operating activities before changes in working capital	36,822	37,392
(Increase) decrease in trade and other assets	(6,872)	(12,919)
- non-recurring	0	(5,941)
Increase (decrease) in trade and other liabilities	11,330	4,766
(Increase) decrease in current financial assets	79	0
(Increase) decrease in inventories	(437)	1,359
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	40,921	30,598
Income tax paid	(16,733)	(8,052)
Financial expense paid	(117)	(21)
TOTAL NET CASH FROM OPERATING ACTIVITIES (A)	24,070	22,525
INVESTING ACTIVITIES		
(Acquisition) disposal net of PPE and intangible assets	(641)	(422)
Interest and financial income received	1,444	371
Dividends received from associates	0	0
Net increase in other non-current assets	6	19
NET CASH FROM INVESTING ACTIVITIES (B)	809	(32)
FINANCING ACTIVITIES		
Dividends paid	(29,633)	(15,515)
(Acquisition) disposal of treasury shares	1,200	0
(Increase) decrease in term bank deposits	0	7,543
- non-recurring	0	7,543
Other changes in equity	(6)	(2)
NET CASH USED IN FINANCING ACTIVITIES (C)	(28,439)	(7,974)
CASH FLOW OF THE YEAR (A)+(B)+(C)	(3,559)	14,519
CLOSING CASH AND CASH EQUIVALENTS (1)	54,701	58,260



Statement of changes in consolidated equity

	Share capital	Share premium reserve	Prior year profit/(loss) and other reserves	Reserve for available-for-sale financial assets	Interim dividend	Profit for the year	Equity attributable to owners of the parent	Non-controlling interests share capital and reserves	Total
€ thousands									
Balance as at 31 December 2008	4,074	57,661	(4,515)	0	0	12,922	70,142	(6)	70,136
Allocation of profit			12,922			(12,922)	0		0
Dividend distribution		(3,004)	(12,448)				(15,452)		(15,452)
Purchase of treasury shares			(409)				(409)		(409)
Disposal of treasury shares			781				781		781
Other changes							0	1	1
Profit for the year				(349)		12,034	11,685	4	11,689
Balance as at 31 December 2009	4,074	54,657	(3,669)	(349)	0	12,034	66,747	(1)	66,746
Allocation of profit			12,034			(12,034)	0		0
Dividend distribution		(3,576)	(11,939)				(15,515)		(15,515)
Other changes			(2)				(2)		(2)
Profit for the year				(1,775)		20,729	18,954	1	18,955
Balance as at 31 December 2010	4,074	51,081	(3,576)	(2,124)	0	20,729	70,184	0	70,184
Allocation of profit			20,729			(20,729)	0		0
Dividend distribution		(1,495)	(17,898)				(19,393)		(19,393)
Interim dividend					(11,696)		(11,696)		(11,696)
Disposal of treasury shares			1,200				1,200		1,200
Other changes			(6)				(6)		(6)
Reclassification reserve for available-for-sale financial assets			(2,132)	2,132			0		0
Profit for the year				(8)		23,446	23,438	3	23,441
Balance as at 31 December 2011	4,074	49,586	(1,683)	0	(11,696)	23,446	63,727	3	63,730



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

€ thousands

	2011	Related parties (*)	% of total	2010	Related parties	% of total
Revenue	281,549	137	0,0%	243,560	122	0,1%
Other revenue and income	2,567	10	0,4%	2,871		
Non-recurring income from Cairo-Telepiù arbitration	0			6,792		
Changes in finished goods	(124)			(35)		
Raw materials, consumables and supplies	(24,501)			(25,243)		
Services	(192,988)	(1,748)	0,9%	(165,867)	(1,388)	0,8%
Use of third party assets	(2,285)			(2,422)		
Personnel expense	(23,630)			(21,753)		
Amortization, depreciation, provisions and impairment loss	(3,584)			(3,738)		
Other operating costs	(1,080)			(1,078)		
Operating profit	35,924			33,087		
Loss on investments	(765)	(765)	100,0%	1	1	100,0%
Net financial income	1,327			349		
Pre-tax profit	36,486			33,437		
Income tax	(13,027)			(12,640)		
Profit from continuing operations	23,459			20,797		
Loss from discontinued operations	(10)			(67)		
Profit for the year	23,449			20,730		

(*) Related party transactions are analyzed in Note 24



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

2006

€ thousands

Assets	31 December 2011	Related parties (*)	% of total	31 December 2010	Related parties (*)	% of total
Property, plant and equipment	2,724			2,656		
Intangible assets	9,282			9,552		
Investments	1,482	1,471	99,2%	2,255	10	0,4%
Non-current financial assets	58			64		
Deferred tax assets	4,734			4,480		
Total non-current assets	18,281			19,007		
Inventories	3,389			2,952		
Trade receivables	108,086	356	0,3%	93,942	451	0,5%
Receivables from parents	1,467	1,467	100,0%	63	63	100,0%
Other receivables and other current assets	7,521	24	0,3%	14,792		
Securities and other current financial assets	0			79		
Cash and cash equivalents	54,701			58,260		
Total current assets	175,164			170,088		
Total assets	193,445			189,095		
Equity and liabilities	31 December 2011			31 December 2010		
Share capital	4,074			4,074		
Share premium reserve	49,586			51,081		
Prior years losses and other reserves	(1,683)			(5,700)		
Interim dividend of Parent	(11,696)			0		
Profit for the year	23,446			20,729		
Equity attributable to the owners of the parent	63,727			70,184		
Non-controlling interests and reserves	3			0		
Total equity	63,730			70,184		
Post-employment benefits	3,898			3,891		
Provisions for risks and charges	2,182			2,124		
Total non-current liabilities	6,081			6,015		
Trade payables	107,029	315	0,3%	97,787	239	0,2%
Payables to the parent	2,156	2,156	100,0%	3,928	3,928	100,0%
Tax liabilities	2,005			2,281		
Other current liabilities	12,444	1,606	12,9%	8,900		
Total current liabilities	123,633			112,896		
Total liabilities	129,714			118,911		
Total equity and liabilities	193,445			189,095		

(*) Related party transactions are analyzed in Note 24



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

€ thousands	Year ended 31 December 2011	Related parties	Year ended 31 December 2010	Related parties
CASH AND CASH EQUIVALENTS	58,260		43,741	
OPERATING ACTIVITIES				
Profit for the year	23,449	(2,366)	20,730	(1,265)
Amortization/Depreciation	842		975	
Changes in intangible assets due to arbitration	0		3,152	
Impairment losses on investments	765		0	
Net financial income	(1,327)		(350)	
Income tax	13,027		12,622	
Changes in post employment benefits	7		78	
Changes in provisions for risks and charges	58		185	
Cash flow from operating activities before changes in working capital	36,822	(2,366)	37,392	(1,265)
(Increase) decrease in trade and other assets	(6,872)	(1,333)	(12,919)	184
Increase (decrease) in trade and other liabilities	11,330	(90)	4,766	2,856
(Increase) decrease in current financial assets	79		0	
(Increase) decrease in inventories	(437)		1,359	
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	40,921	(3,789)	30,598	1,775
Income tax paid	(16,733)		(8,052)	
Financial expense paid	(117)		(21)	
TOTAL NET CASH FROM OPERATING ACTIVITIES (A)	24,070	(3,789)	22,525	1,775
INVESTMENT ACTIVITIES				
(Acquisitions) / disposals net in PPE and intangible assets	(641)		(422)	
Interest and financial income received	1,444		371	
Dividends received from associates	0		0	
Net increase in other non-current assets	6		19	
NET CASH FROM INVESTING ACTIVITIES (B)	809	0	(32)	0
FINANCING ACTIVITIES				
Dividends paid	(29,633)		(15,515)	
(Purchase) disposal of treasury shares	1,200		0	
(Increase) decrease in term bank deposits	0		7,543	
Other changes in equity	(6)		(2)	
NET CASH USED IN FINANCING ACTIVITIES (C)	(28,439)	0	(7,974)	0
CASH FLOW OF THE YEAR (A)+(B)+(C)	(3,559)	(3,789)	14,519	1,775
CLOSING CASH AND CASH EQUIVALENTS	54,701		58,260	



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2011

Main activities

Cairo Communication S.p.A. (the Parent) is a joint-stock company enrolled with the Milan company register.

The Cairo Communication Group operates as a publisher of magazines and books (Cairo Editore – and its division Editoriale Giorgio Mondadori – and Cairo Publishing), as a multimedia advertising broker selling advertising time and space on television, in print media and in stadiums (Cairo Communication and Cairo Pubblicità), and as an operator of Internet sites (Il Trovatore).

Its registered offices are at 56 Via Tucidide, Milan, home also to the administrative offices, the advertising brokerage services and Il Trovatore. The publishing business is located at Cairo Editore, at 55 Corso Magenta, Milan.

Figures are shown in thousands of Euro.

Basis of preparation

Structure, form and content of the consolidated financial statements

The consolidated financial statements at 31 December 2011 have been prepared in accordance with IFRS issued by the International Accounting Standard Board (“IASB”) and endorsed by the European Union, as well as with the provisions arising from art. 9 of Legislative Decree no. 38/2005. The term IFRS is used to mean all the international accounting standards (“IAS”) and all the interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), formerly the Standing Interpretations Committee (“SIC”).

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

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

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

- profit and loss that could be directly recognized in equity (for instance actuarial gains and losses),



-
- 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 practices.

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

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

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

The **consolidated statements of cash flows** 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 consolidated equity** shows the variations in equity relating to:

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

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

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

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



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

Basis and scope of consolidation

The scope of consolidation includes consolidated subsidiaries (which are controlled as defined by IAS 27, i.e. the financial and operational policies of the company are under the control of the Parent in order to derive benefits from the company's operations), and consolidated associates (over which significant influence is exercised, pursuant to IAS 28).

The consolidated financial statements at 31 December 2011 include the financial statements of the Parent Cairo Communication S.p.A. and the following direct or indirect subsidiaries.

Company	Head office	Quota capital as at 31/12/11	% of investment	Reporting date	Business	Consolidation method
Cairo Communication S.p.A.	Milan	4,074		31/12	Advertising	Full
Cairo Editore S.p.A.	Milan	1,043	99.95	31/12	Publishing	Full
Diellesei S.r.l. in liquidation	Milan	2,000	60	31/12	In liquidation	Full re assets and liabilities (*)
Cairo Due S.r.l.	Milan	47	100	31/12	Advertising	Full
Cairo Pubblicità S.p.A.	Milan	2,818	100	31/12	Advertising	Full
Cairo Publishing S.r.l.	Milan	10	100	31/12	Publishing	Full
Il Trovatore S.r.l.	Milan	25	80	31/12	Internet	Full
Edizioni Anabasi S.r.l.	Milan	10	99.95	31/12	Publishing	Full
Dmail Group S.p.A.	Milan	15,300	10	31/12	E-commerce - Retail Publishing	Single line

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

As in prior years, the financial statements of the subsidiary Cairo Sport S.r.l. have not been consolidated as the company is not significant. The only change in the scope of consolidation compared with 31 December 2010 is the inclusion of the associate Dmail Group S.p.A., consolidated using the single-line method and previously classified under available-for-sale financial assets.

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

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



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

The consolidation of the financial statements of the associate was made on a single line basis, the measurement of the investment being based on the equity method.

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

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

Business combinations

The acquisition of subsidiaries is recognized using the acquisition method. The acquisition price is calculated by the sum of current values, at the exchange date, of the assets acquired, liabilities assumed, financial instruments issued by the Group in exchange for the control of the acquired company. Starting from 2010, ancillary costs of the transaction are recognized in profit and loss when they are incurred.

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

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

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

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

Here below is a summary of the most relevant accounting policies adopted by the Group.

Investments

Associates

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



The financial results, assets and liabilities of associates are consolidated using the equity method. Using this method, investments in associates are recognized in the statement of financial position at cost, adjusted for changes subsequent to the acquisition of the net assets of associates, net of any impairment losses on individual investments. Any losses exceeding the Group share therein are not recognized, unless the Group has a commitment relating to loss coverage. The excess of acquisition cost over the Group share of carrying amount of assets, liabilities and identifiable contingent liabilities of the associate at the acquisition date is recognized as goodwill. Every year goodwill is tested for impairment. With regard to transactions between Group companies and associates, unrealized profits and losses are eliminated in a proportion equal to the Group investment in the associate, except when unrealized losses are evidence of an impairment loss on the business acquired.

Other investments (available for sale)

Other investments are measured at fair value at each year end.

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

Goodwill

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

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

Revenue and cost recognition

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

- Revenue are recognized based on the probability with which the company will enjoy the economic benefits and in the extent to which the amount can be reliably determined. Revenue is stated net of any adjustments.



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- Advertising revenue is recognized at the moment the advertisement is broadcast or published. Revenue from publications is recognized at the date of publication.
 - Revenue from the sale of magazine subscriptions is recognized on the basis of the magazines published and distributed during the period.
 - Pre-publication and launch costs are recognized in profit and loss when incurred.
 - Interest income and expenses is recognized on an accruals basis. Dividends are recognized when the right of the shareholders to receive the payment is established.
 - Cost incurred on behalf of third parties are recharged against the cost to which they relate.

Taxes

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

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

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

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

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

UT Communications S.p.A. acts as the tax parent and determines a single taxable base for the group of companies that adheres to 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 adheres to the national tax consolidation scheme transfers its taxable profit or loss to the tax parent. For any such taxable profit reported by a subsidiary, UT Communications S.p.A. recognizes receivables equal to the IRES payable. Conversely, for any such taxable loss, reported by a subsidiary, UT Communications 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 taxes are calculated on the basis of the tax rates that are foreseen will be in force at the moment of realization of the asset or of the



liability, based on tax legislation in force at the reporting date. Where relevant, the effects of any changes in tax rate or tax legislation are disclosed in the notes. Deferred tax assets and liabilities are shown at their net value when there is a legal right to offset current tax liabilities against tax receivable assets and when taxes relate to the same taxation authority.

Post-employment benefits

Post-employment benefit, 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.

Non-current assets

Intangible assets

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

Concessions, licenses, trademarks and similar rights	3 to 5 years for application software licenses
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Other:

Software	3 to 5 years
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Publication titles	20 years
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Publication titles are amortized over a period of 20 years from the date of their acquisition based on their remaining useful lives. This amortization period is regularly reviewed to take account of the financial performance of the subsidiaries that own the title.

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.



Property, plant and equipment

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

They are recognized at acquisition price or production cost, including directly associated expenses and costs, plus the share of indirect costs which can 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 machinery	10%
Office equipment and furniture	10%-12%
Electronic equipment	20%

Land is not depreciated.

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

The remaining useful lives and the depreciation criteria applied are reviewed on a regular basis and where change is deemed necessary the depreciation rate is restated in accordance with the “prospective” method. The remaining useful lives of assets are reviewed annually and if incremental maintenance or other work has been carried out which changes the remaining useful life of the investment, these are adjusted accordingly.

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

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

Impairment of assets

At least once a year, the Group reviews the recoverability of the intangible assets with an indefinite useful life, and of investments and publication titles, and whenever there are potential indicators of an impairment loss on PPE and intangible assets with a finite useful life, in order to determine whether such



assets may have suffered an impairment loss. When such indicators are present, the carrying amount of the asset is reduced to reflect recoverable amount. The recoverable amount of an asset is the greater of its fair value less costs to sell, and its value in use. The fair value of a listed investment is determined according to its market price at the reporting date, in case the Stock Market price is considered to represent the effective value of the investment. In the absence of market values, estimates and valuation methods are applied based on data which is in any case evident on the market. To determine an asset's value in use, the Group calculates the present value of future estimated cash flows, inclusive of tax, by applying a pre-tax discount rate which reflects the current market valuation, including the time value of money and the specific risks inherent to the asset.

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

Current assets and liabilities

Inventories

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

Receivables

Trade and other receivables are recognized at their estimated realizable value.

Financial assets

They are recognized and derecognized on the basis of their trade date. They are initially measured at cost, including all direct expenses associated with their acquisition.

At the subsequent reporting date, the financial assets that the Group has the intention and ability to hold to maturity (shares held-to-maturity) are recognized at amortized cost, net of any impairment losses.

Investments other than those held to maturity are classified as held for trading or available for sale and are measured at the end of each period at their fair value. When financial assets are held for trading, gains and losses arising from fair value changes are recognized in profit and loss. In the case of available-for-sale financial assets, gains and losses arising from fair value changes are taken directly to equity until they are sold or are impaired; in this case the gains or losses previously taken to equity are recognized in profit and loss.



Valuations are regularly carried out to check whether there is any objective evidence that an investment, whether taken individually or as a group of investments, may have suffered an impairment loss. In the existence of such evidence, impairment losses are recognized in profit and loss.

Cash and cash equivalents

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

Borrowings, bank loans and bank overdrafts

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

Trade payables

These are recognized at their nominal amount.

Equity

Treasury shares

Treasury shares are measured at historical cost and are recognized 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.

Provisions for risk and charges

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

Use of estimates

The preparation of the financial statements and the notes thereto, in application of IFRS, requires that the Group carry out estimates and assumptions which affect the carrying amount of assets and liabilities and



disclosure about assets and contingent liabilities at the reporting date. Estimates and assumptions used are based on experience and on other factors considered significant. Actual results could differ from these estimates. Estimates mainly relate to provisions for risks relating to receivables, obsolete inventory, publishing returns, investment measurements, amortization, depreciation, impairment of assets, taxation, provisions for risk and charges, and contingent liabilities.

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

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

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

Allowance for 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, according to past experience for similar receivables, current and past due dates, losses and receipts arising from the careful monitoring of receivable management and from projections on market and economic conditions.

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



Deferred tax assets

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

Recoverable amount of non-current assets (including goodwill)

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

For the preparation of the consolidated financial statements at 31 December 2011, and in particular in the performance of impairment tests on intangible assets and property, plant and equipment, the different segments of the Group have taken into account the expected 2012 performance, whose assumptions and results are in line with the information disclosed in the section on "*events after the reporting period date*". In addition, for the subsequent years of the plan, necessary adjustments have been cautiously made to take account of the deep market changes resulting from the current economic and financial crisis. No significant impairment was required based on such figures in the plan.

Provisions for risk and charges

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

Risk management

The main fiscal, legal and financial risks to which the Cairo Communication Group is exposed, as well as the policies put in place by Management for their management, are explained in notes 35 and 37. Reference is made to the Directors' Report for operational and business risks.



Accounting standards, amendments and interpretations applied from 1 January 2011

The following accounting standards, amendments and interpretations were applied for the first time by the Group starting from 1 January 2011:

- On 4 November 2009, the IASB issued a revised version of IAS 24 – *Related party disclosures*, which simplifies disclosure requirements for transactions with government related entities and clarifies the definition of related parties. Specifically, the definition of related parties also includes companies controlled by parties on which the reporting entity exercises, either directly or indirectly, significant influence. It also removes the asymmetry of disclosures in the financial statements of related parties, makes equal the position of persons and companies for the purposes of determining related party relationships and requires disclosure also on commitments received and granted to related parties. The amendments introduced with the revision are applicable from annual periods beginning on or after 1 January 2011. The adoption of the amendment produced no effect in terms of measurement of financial statements items and/or on the disclosure of related party transactions provided in the consolidated financial statements at 31 December 2011.
- On 6 May 2010, the IASB issued a series of improvements to the IFRS applicable as from 1 January 2011; the following are those indicated by IASB as variations involving changes in the presentation, recognition and measurement of financial statements, omitting those that will involve mere changes in terminology or editorial changes with a minimum accounting effect, or those that affect standards or interpretations that are not applied by the Group:
 - IFRS 3 (2008) - *Business Combinations*: the amendment clarifies that the components of non-controlling interests that do not entitle owners to receive a proportionate share of the subsidiary's net assets must be measured at fair value or under the requirements of applicable accounting standards. Therefore, for instance, a stock option plan granted to employees must be measured, in the event of a business combination, in accordance with IFRS 2 and the equity share of a convertible debt instrument must be measured in accordance with IAS 32. Furthermore, the Board has discussed the share-based payment plans that are replaced as part of a business combination, by adding specific guidance to clarify the accounting treatment.
 - IFRS 7 - *Financial instruments: disclosures*: the improvement emphasizes interaction between qualitative and quantitative disclosures required by the standard regarding the nature and extent of risks arising from financial instruments. This should help users of financial statements to evaluate an entity's exposure to risks to financial instruments. Disclosure has been deleted for financial assets past due which have been renegotiated or impaired and for information regarding the fair value of collateral.



- IAS 1 - *Presentation of financial statements*: the improvement requires an entity to provide a reconciliation of changes in each component of equity in the notes to the financial statements or in the financial statements.

The following amendments and improvements, effective as from 1 January 2011, govern circumstances that are alien to the Group at the date of these consolidated financial statements, but could have accounting effects on future transactions or agreements:

- Amendment to IAS 32 - *Financial instruments: Presentation* issued on 8 October 2009 and applicable retrospectively as from 1 January 2011;
- IFRIC 14 – *Prepayments of a minimum funding requirement*, issued on 26 November 2009 and applicable as from 1 January 2011;
- IFRIC 19 – *Extinguishing financial liabilities with equity instruments*, issued on 26 November 2009 and applicable as from 1 January 2011;
- Amendment to IFRS 1 and IFRS 7 - *Financial Instruments: disclosures*. Limited exemption from comparative IFRS 7 disclosure for first-time adopters, amendments to IFRS 1 and IFRS 7.

Accounting standards, amendments and interpretations yet to apply and not adopted early by Cairo Communication

On 7 October 2010, the IASB issued several amendments to IFRS 7 – *Financial instruments: improved disclosures*, to be applied for annual periods starting from or after 1 July 2011. The amendments were issued to improve the understanding of transfers of financial assets and the possible effects arising from risks associated with the continuing involvement of the entity that has transferred such assets. The amendments require further information in the event a disproportionate amount of transfer transactions is undertaken around the end of the year.

Moreover, at the date of these consolidated financial statements, the relevant EU bodies have yet to complete the endorsement process for application of the amendments and standards listed below:

- On 12 November 2009, the IASB issued IFRS 9 – *Financial instruments: recognition and measurement of financial assets* applicable as from 1 January 2013, amended on 28 October 2010. The publication is the opening part of a process that aims to overhaul IAS 39. The new standard uses a single approach and is based on how a company manages its financial instruments and the contractual cash flows of the financial assets to determine the measurement methodology replacing IAS 39. For financial liabilities, instead, the main change made regards accounting of fair value changes of a financial liability designated as financial liability measured at fair value through profit or loss, in the event these are attributable to changes in the credit risk of the liability. Based on this new standard, changes must be presented in other comprehensive income and expense and no longer in the income statement.



On 20 December 2010, the IASB issued:

- a narrow amendment to IFRS 1 – *First-time adoption of International Financial Reporting Standards (IFRS)* to cancel reference to the date of 1 January 2004 it contained and described as the date of transition to IFRS, and to provide guidance on the presentation of the financial statements in compliance with IFRS following a period of severe hyperinflation. These amendments will be applicable as from 1 July 2011;
- a narrow amendment to IAS 12 – *Income tax* addressing the issue of measuring deferred tax as arising from continuing operations depending on whether the company expects to recover the carrying amount of the asset through use or sale. As a result of the amendment, SIC-21 – *Income taxes – Recovery of Revalued Non-Depreciable Assets* will no longer be applicable. The amendment is applicable as from 1 January 2012.
- On 12 May 2011, the IASB issued IFRS 10 – *Consolidated Financial Statements*, which will replace SIC 12 - *Consolidation - Special Purpose Entities* and parts of IAS 27 - *Consolidated and Separate Financial Statements*, which will be renamed *Separate Financial Statements* and will regulate the accounting treatment of equity investments in separate financial statements. The new standard builds on existing standards, identifying the concept of control as the decisive factor for the purposes of consolidation of a company in the consolidated financial statements of the parent. It also provides guidance to determine the existence of control when this is difficult to ascertain. The standard is retrospectively applicable as from 1 January 2013.
- On 12 May 2011, the IASB issued IFRS 11 – *Joint Arrangements*, which will replace IAS 31 – *Interests in Joint Ventures* and SIC 13 – *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. The new standard provides criteria for the identification of joint arrangements based on the rights and obligations arising from such arrangements rather than on their legal form, and establishes the equity method as the sole method of accounting in consolidated financial statements for joint ventures. The standard is retrospectively applicable as from 1 January 2013. Following issue of the standard, IAS 28 – *Investments in Associates* has been amended to comprise, within its scope of application, from the date it comes into effect, also investments in joint ventures.
- On 12 May 2011, the IASB issued IFRS 12 – *Disclosure of Interests in Other Entities*, a new standard which specifically envisages the disclosure to be provided on all types of interests, including those in subsidiaries, joint arrangements, associates, special purpose entities and other unconsolidated special purpose vehicles. The standard is retrospectively applicable as from 1 January 2013.
- On 12 May 2011, the IASB issued IFRS 13 – *Fair Value Measurement*, which clarifies how to calculate fair value for the purposes of financial reporting and is applicable to all IFRS that



require or allow fair value measurement or disclosures based on fair value. The standard is prospectively applicable as from 1 January 2013.

- On 16 June 2011, the IASB issued an amendment to IAS 1 – *Presentation of Financial Statements* requiring entities to group items presented in OCI (Other Comprehensive Income) based on whether they are potentially re-classifiable subsequently to profit and loss. The amendment is applicable to annual periods beginning on or after 1 July 2012.
- On 16 June 2011, the IASB issued an amendment to IAS 19 – *Employee Benefits* that eliminates the option of deferring recognition of actuarial gains and losses via the corridor approach, requiring presentation, in the statement of financial position, of the fund’s deficit or surplus and recognition in the profit and loss of cost components relating to service and net financial expense, and recognition of actuarial gains and losses stemming from re-measurement of liabilities and assets among Other income (expense). In addition, the return on assets included in net financial expense must be calculated on the basis of the discount rate for liabilities and no longer on the basis of the rate of return expected for assets. Lastly the amendment introduces new disclosures to be provided in the notes to financial statements. The amendment is retrospectively applicable to annual periods beginning on or after 1 January 2013.
- On 16 December 2011, the IASB issued amendments to IAS 32 – *Financial Instruments: Presentation*, to clarify the application of certain criteria for offsetting financial assets against financial liabilities included in IAS 32. The amendments are retrospectively applicable to annual periods beginning on or after 1^o January 2014.
- On 16 December 2011, the IASB issued amendments to IFRS 7 – *Financial Instruments: Disclosures*. The amendment requires disclosures about the effect or potential effect of offsetting of financial assets against financial liabilities on an entity’s financial position. The amendments are applicable to the annual periods beginning on or after 1 January 2013 and to interim periods following such date. Disclosure is to be provided retrospectively.

The following amendments and interpretations, not yet applicable, are deemed irrelevant for the Group as they govern circumstances that do not appear at the reporting date:

- IFRIC 20 - *Stripping costs in the production phase of a surface mine*.



NOTES TO THE CONSOLIDATED INCOME STATEMENT

1. Revenues

In order to provide a more complete view, and in consideration of the specifics of the sector, gross revenue, agency discounts and net revenue are analyzed as follows.

(€ thousands)	2011	2010
Gross revenue	316,635	271,456
Advertising agency discounts	(35,086)	(27,896)
Revenue, net	281,549	243,560

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

Gross revenue can be analyzed as follows:

	2011	2010
TV advertising	201,768	155,058
Print media advertising	41,253	39,092
Stadium signage and electronic billboards	2,094	1,571
Internet advertising	1,332	1,120
Magazine sales	66,838	70,978
Subscriptions	3,126	2,883
Books and catalogues	1,377	1,970
VAT relating to publications	(1,253)	(1,303)
Other	100	87
Total gross revenue	316,635	271,456

As illustrated more in detail in the Directors' Report, in 2011:

- TV advertising revenue (including La 7, La 7d, Sportitalia and the theme channels Cartoon Network, Boomerang and CNN), totaling Euro 201.8 million, were up 30.1% overall on 2010 (*AC Nielsen*: the TV advertising market in 2011 3.1% down on 2010). Specifically, advertising revenue on LA7, amounting to approximately Euro 167.5 million, was up 32.5% on 2010 and greatly exceeded the minimum annual contractual target of Euro (Euro 120 million) and the additional revenue target related to the share increase of the channel achieved by TIMedia with respect to the 3% share. In 2011, LA7 audience shares confirmed the trend that had started in autumn 2010 and increased by 24.4% (3.82% average all-day share versus 3.07% in 2010).



- magazine sales, amounting to Euro 66.8 million, were down 5.8% on 2010, due also to the lower amount of issues of “Settimanale Dipiù” on 2010 (52 instead of 53), causing a loss in revenue of approximately Euro 0.5 million, the cut price (from 1 Euro to 50 cents) of six issues of “Dipiù TV”, with a loss in revenue of approximately Euro 1 million, and the cut price (from 70 cents to 50 cents) of three issues of “TV Mia”, with a loss in revenue of approximately Euro 0.1 million;
- Group gross advertising revenue, which reached Euro 40.1 million, was up 5.3% on the same period of 2010 (Euro 38.1 million), despite one issue less of “Settimanale Dipiù” (ACNielsen: the magazine advertising market in 2011 down 3,7% on 2010).

2. Other revenue and income and non-recurring income from Cairo-Telepiù arbitration

Other revenue and income

Other revenue can be analyzed as follows:

	2011	2010
Paper	1,222	1,136
Technical services	155	44
Other revenue and prior year income	1,190	1,691
Total other revenue and income	2,567	2,871

“Other revenue and prior year income ” mainly includes prior year income and not operating revenue.

Non-recurring income from Cairo-Telepiù arbitration

In the 2010 consolidated income statement, income arising from the Cairo-Telepiù arbitration, pending from 2004 and amounting to Euro 6,792 thousand, had been shown separately owing to its non-recurring nature and size, as illustrated in the 2010 annual financial report.

3. Changes in finished goods

Changes in finished goods amount to a negative Euro 124 thousand (a negative Euro 35 thousand in 2010), and arise from the use of the magazine sales during the ordinary course of business relating to Cairo Editore S.p.A. and Cairo Publishing S.r.l.

4. Raw materials, consumables and supplies

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



	2011	2010
Paper	23,921	22,603
Equipment and sundry materials	1,141	1,317
Change in inventory of paper, equipment and sundry materials	(561)	1,323
Total raw materials, consumables and supplies	24,501	25,243

5. Services

As shown in the following chart, this item mainly comprises publishers' fees, agents' commissions and general and administrative costs, and can be analyzed as follows:

	2011	2010
Publishers' fees	133,146	108,476
Media center fees	5,580	3,763
Agents' commissions	8,183	6,833
Technical costs	377	399
Administrative costs	5,227	5,425
Consultancies and collaborations	11,962	12,406
External processing	17,757	18,500
Advertising and promotion	6,124	5,333
Organizational costs and overheads	4,632	4,732
Total services	192,988	165,867

The variation in publishers' fees is in line with the growth in TV advertising revenue. Such increase is basically related to "media center fees" and "agents' commissions".

Publishers' fees include those for Torino Football Club related to the advertising concession agreement for the sale of stadium advertising space and of promotional-advertising sponsorship packages, except for "main sponsor" positionings, amounting to Euro 1.2 million.

The variation in "consultancies and collaborations" and "external processing" is ascribable to the cost-cutting measures mentioned in the Directors' Report, implemented starting from 2008 to increase the effectiveness and efficiency of production, publishing and circulation processes, which have allowed the Group to save cash with respect to the previous year.



6. Use of third parties assets

The item amount to Euro 2,285 thousand (Euro 2,422 thousand in 2010) and mainly includes lease payments for property, office equipment and royalties for copyrights.

7. Personnel expenses

The item can be analyzed as follows:

	2011	2010
Wages and salaries	17,542	16,166
Social security contributions	5,355	4,910
Post-employment benefits	724	645
Other expense	9	32
Total personnel expense	23,630	21,753

The increase in personnel expenses in the advertising segment reflects the higher rate of contests and the sales incentives sheets, in consideration of the sharp rise in revenue.

8. Amortization, depreciation, provisions and impairment losses

These can be analyzed as follows:

	2011	2010
Amortization of intangible assets	459	567
Depreciation of property, plant and equipment	383	406
Allowance for impairment	2,438	2,641
Provisions for risk and charges	304	124
Total amortization, depreciation, provisions and impairment losses	3,584	3,738

9. Other operating costs

These can be analyzed as follows

	2011	2010
Deductible and non-deductible taxes paid during the year	148	164
Prior years expenses	543	523
Other	389	391
Total other operating costs	1,080	1,078



10. Loss on investments

The loss of Euro 765 thousand refers to the impairment loss on the investment in the associate Dmail Group, measured with the equity method, as illustrated below in Note 18.

11. Net financial income

This item refers to financial income totaling Euro 1,444 thousand (Euro 458 thousand in 2010), net of financial expenses of Euro 117 thousand (Euro 109 thousand in 2010) analyzed as follows:

	2011	2010
Interest income on bank and postal account	1,411	441
Other	33	17
Total financial income	1,444	458
Bank interest expense	(3)	(4)
Other	(114)	(105)
Total financial expense	(117)	(109)
Net financial income	1,327	349

Interest income includes interest on fixed-term deposits in current accounts and on treasury bank accounts used to employ liquidity. The variation in net financial income is mainly ascribable to the variation in interest rates on 2010 (1.19% average 1-month Euribor rate in 2011 versus 0.57% in 2010).

12. Income tax

This item can be analyzed as follows:

	2011	2010
IRES for the year	10,854	10,091
IRAP for the year	2,408	2,355
Deferred tax income and expenses	(235)	194
Total income tax	13,027	12,640

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

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



	2011	2010
Pre-tax profit	36,486	33,437
Theoretical income tax charge (27.5%)	10,034	9,195
Permanent tax variations	585	1,278
Net effect of tax release of reserves from merger of Cairo Editore-Editoriale Giorgio Mondadori	-	(190)
Irap	2,408	2,357
Income tax	13,027	12,640

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

13. Loss from discontinued operations

This includes the results of Diellesei S.p.A. in liquidation, which can be analyzed as follows:

	2011	2010
Other revenue and income	13	121
Services	(10)	(59)
Personnel expense	-	(48)
Amortization, depreciation, provisions and impairment losses	(14)	(100)
Operating loss (EBIT)	(11)	(86)
Net financial income / (expense)	-	1
Loss before tax	(11)	(85)
Income tax	1	18
Loss from discontinued operations	(10)	(67)

With regard to the financial situation, the effect on Group liquidity of Diellesei in liquidation can be analyzed as follows:

	2011	2010
Net cash flow used in operating activities and the liquidation process	(17)	(258)
Net cash flow used in investment activities	-	-
Net cash flow from (used in) financing activities	-	-
Net decrease for the year	(17)	(258)



14. Segment reporting

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

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

- **publishing**, the Group operates as a publisher of magazines and books through its subsidiaries Cairo Editore, publisher of weeklies “Settimanale Dipiù”, “Dipiù TV”, “Diva e Donna”, “TV Mia” and supplements “Settimanale Dipiù e Dipiù TV Cucina e Stellare” and monthlies “For Men Magazine”, “Natural Style”, “Bell’Italia”, “Bell’Europa”, “In Viaggio”, “Airone”, “Gardenia”, “Arte” and “Antiquariato”, and Cairo Publishing, publisher of books;
- **advertising**, 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 third-party publishers TIMedia (LA7 and LA7d), Sportitalia and Turner Broadcasting (Cartoon Network, Boomerang, CNN), on the Internet and for the sale of stadium advertising spaces at the Olimpico football pitch in Turin for Torino FC;
- **Il Trovatore**, which manages its own search engine and provides technological services mainly within the group.

No combinations were made for the definition of reportable business segments.

2011	Publi- shing	Adverti- sing	Trovatore	Unalloca- ted operations	Elimina- tions	Total
Revenue	70,321	211,190	38	-	-	281,549
Inter-segment revenue	29,860	502	316	-	(30,678)	-
Other income	1,872	695	-	-	-	2,567
Non-recurring arbitration income	-	-	-	-	-	-
Change in finished goods	(124)	-	-	-	-	(124)
Production cost	(64,883)	(155,697)	(274)	-	-	(220,854)
Inter-segment production cost	(688)	(29,968)	(22)	-	(30,678)	-
Personnel expense	(16,746)	(6,852)	(32)	-	-	(23,630)
Amortization, depreciation, provisions and impairment losses	(1,416)	(2,170)	2	-	-	(3,584)
Operating profit (EBIT)	18,196	17,700	28	-	-	35,924
Loss on investments	-	(765)	-	-	-	(765)
Net financial income/(expense)	177	1,151	(1)	-	-	1,327
Pre-tax profit	18,373	18,086	27	-	-	36,486
Income tax	(6,451)	(6,554)	(22)	-	-	(13,027)
Profit from continuing operations	11,922	11,532	5	-	-	23,459
Profit/(loss) from discontinued operations	-	-	-	(10)	-	(10)
Profit for the year	11,922	11,532	5	(10)	-	23,449
Non-controlling interests	-	-	3	-	-	3



A client in the publishing segment (the publications distributor) accounts for approximately 29% of net consolidated revenue.

2010	Publi- shing	Adverti- sing	Trovatore	Unalloca- ted operations	Elimina- tions	Total
Revenue	74,701	168,831	28	-	-	243,560
Inter-segment revenue	26,502	500	316	-	(27,318)	-
Other income	1,958	913	-	-	-	2,871
Non-recurring arbitration income	-	6,792	-	-	-	6,792
Change in finished goods	(35)	-	-	-	-	(35)
Production cost	(68,148)	(126,203)	(259)	-	-	(194,610)
Inter-segment production cost	(480)	(26,838)	-	-	27,318	-
Personnel expense	(16,194)	(5,526)	(33)	-	-	(21,753)
Amortization, depreciation, provisions and impairment losses	(1,489)	(2,247)	(2)	-	-	(3,738)
Operating profit (EBIT)	16,815	16,222	50	-	-	33,087
Loss on investments	-	1	-	-	-	1
Net financial income/(expense)	61	289	(1)	-	-	349
Pre-tax profit	16,876	16,512	49	-	-	33,437
Income tax	(5,701)	(6,896)	(43)	-	-	(12,640)
Profit from continuing operations	11,175	9,616	6	-	-	20,797
Profit/(loss) from discontinued operations	-	-	-	(67)	-	(67)
Profit for the year	11,175	9,616	6	(67)	-	20,730
Non-controlling interests	-	-	1	-	-	1

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

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

15. Earnings per share

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



	2011	2010
€ thousands:		
Profit from continuing operations	23,459	20,797
Profit / (loss) from discontinued operations	(10)	(67)
Profit for the year	23,449	20,730
Weighted average number of outstanding shares as at 31 December 2011	78,343,400	78,343,400
Weighted average number of treasury shares	(551,052)	(771,326)
Weighted average number of shares used in the calculation of earnings per share	77,792,348	77,572,074
€ thousands:		
Earnings per share attributable to continuing operations	0,302	0,268
Earnings / (loss) per share attributable to discontinued operations	(0,000)	(0,001)
Net earnings per share	0,302	0,267

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

NOTES TO THE STATEMENT OF FINANCIAL POSITION

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

16. Property, plant and equipment

The movements in PPE can be analyzed as follows:

	Property	Plant and machinery	Other assets	Total
Carrying amount as at	1,450	128	1,078	2,656
31/12/2010				
Additions	-	83	399	482
Disposals	-	-	(31)	(31)
Depreciation	(44)	(26)	(313)	(383)
Carrying amount as at	1,406	185	1,133	2,724
31/12/2011				

17. Intangible assets

The movement in intangible assets can be analyzed as follows:



	Concessions, licenses and trademarks	Goodwill	Titles	Assets under const.	Total
Carrying amount as at 31/12/2010	284	7,198	2,070	-	9,552
Additions	184	-	-	5	189
Disposals	-	-	-	-	-
Amortization	(194)	-	(265)	-	(459)
Carrying amount as at 31/12/2011	274	7,198	1,805	5	9,282

Concessions, licenses and trademarks

As at 31 December 2011, this item mainly regarded application software.

Goodwill

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

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

CGU	Balance 31/12/10	Additions	Decreases	Impairment losses	Balance as at 31/12/11
Publishing	4,746	-	-	-	4,746
Advertising	2,289	-	-	-	2,289
Trovatore	163	-	-	-	163
Total	7,198	-	-	-	7,198

As at 31 December 2011, goodwill underwent impairment testing as required by IAS 36. This test, carried out at least annually, was performed at the level of the cash generating units (CGUs) to which goodwill is allocated. The realizable value of goodwill was determined by estimating value in use calculated as the present value of the prospective cash flows from operations derived from the most recent company



budgets and three-year plans. The main assumptions made for the calculation of value in use are summarized as follows:

CGU	Growth rate of terminal values 2011	Discount rate 2011	Growth rate of terminal values 2010	Discount rate 2010
Publishing	1%	10.5%	1%	10.5%
Advertising	1%	10.5%	1%	10.5%
Trovatore	1%	10.5%	1%	10.5%

No evidence arose to indicate that the activities carried out by the CGUs subject to impairment testing could have suffered an impairment loss. Furthermore, the Group has developed a sensitivity analysis of the realizable values allocated to the three CGUs using the discount rate as the key parameter. No significant evidence of potential impairment arose from this analysis.

The estimates and the budget figures used for the determination of the recoverable amount of goodwill have been determined by Group management on the basis of both past experience and on the expectations of the development in the markets in which the Group operates, also taking account of the specific general economic environment. Management believes that the use of these estimates will have no significant impact in determining the carrying amount of goodwill, especially in the publishing and advertising sector, of which is already fully covered by the expected cash flows of 2012 alone.

Titles

Titles are made up as follows:

	Balance 31/12/10	Additions	Amortization	Balance 31/12/11
Bell'Italia	1,306	-	(165)	1,141
Bell'Europa	717	-	(88)	629
Other titles	47	-	(12)	35
Total	2,070	-	(265)	1,805

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

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18. Investments and non-current financial assets

The movement in this item can be analyzed as follows:

(€ thousands)	Carrying amount as at 31/12/2010	Reclassification	Effects of fair value measurement	Impairment losses	Carrying amount as at 31/12/2011
Cairo Sport Srl	0	-	-	-	0
Total subsidiaries	10	-	-	-	10
Dmail Group S.p.A.	0	2,234	(8)	(765)	1,461
Total associates	10	2,234	(8)	(765)	1,461
Dmail Group S.p.A.	2,234	(2,234)	-	-	0
Other	11	-	-	-	11
Total other	2,245	(2,234)	-	-	11
Total	2,255	-	(8)	(765)	1,482

Cairo Sport S.r.l. was measured at cost, which does not differ much from the amount calculated using the equity method.

In 2011, the investment held in the listed company Dmail Group S.p.A. (765,000 shares, or 10% of the quota capital) was reclassified from “investments in other companies” (“available for sale”) to “investments in associates”, with the resulting measurement using the equity method in the consolidated financial statements, and at cost net of any impairment losses, if any, in the financial statements of Cairo Communication. The reasons for the reclassification were the following:

- on 8 April 2011, Cairo Communication had jointly submitted the lists of candidates with another shareholder to renew the Board of Directors and the Board of Auditors, exercising, for the first time ever since holding the investment (2005), the rights arising from the list vote;
- submission of the lists, therefore exercise of such rights, was consistent with the intention to exercise greater influence in the management of the associate, whose new Board of Directors is currently working on a long term business plan to kick-start and develop business activities and pursue greater operational efficiency.

At their meeting of 9 May 2011, the Shareholders of the Dmail Group appointed Fabio Tacciarina as member of the Board of Directors, and Luca Berta as Chairman of the Board of Statutory Auditors, both drawn from the minority lists jointly submitted by Cairo Communication S.p.A. and Niteroi S.r.l.

The date taken as reference for reclassification was 8 April 2011 (date of submission of the lists), with a carrying amount of Euro 2.91 per share (average stock exchange price 1 January 2011 - 8 April 2011). “Fair value measurement effects” refers to the adjustment of the carrying amount of the investment at 8 April 2011, with a balancing-entry of Euro 8 thousand in the statement of comprehensive income and equity.



At 31 December 2011, the associate recognized a loss in profit and loss, reflected in the measurement using the equity method.

An impairment test was conducted jointly with external consultants on the amount ideally allocable to goodwill, by separately measuring the different activities of Dmail Group. The methods used were based on the discounting of expected results and on current market multiples, drawing on recent research carried out by independent professionals.

The application of this method resulted in the recognition, in 2011, of an overall impairment loss on the investment in Dmail Group, following the adjustment of its recoverable amount, of Euro 765 thousand, with a balancing-entry in profit and loss.

The main income statement figures of Dmail Group, drawn from its interim financial statement as at 31 December 2011, gross of tax effects and excluding statement of financial position figures other than the net financial position, from the consolidated financial statements at 31 December 2010 and the consolidated interim report at 30 June 2011, are summarized in the following tables:

Income statement	12 months at 31 December 2011	6 months at 30 June 2011	12 months at 31 December 2010
Revenue and other income	76,723	38,261	77,502
Gross operating profit from continuing operations	2,915	2,046	3,634
Net operating profit (loss) from continuing operations	(280)	577	153
Pre-tax profit (loss) from continuing operations	(2,338)	(415)	(1,174)
Profit (loss) from discontinued operations	(3,830)	(101)	(1,675)
Pre-tax profit (loss)	(6,169)	(516)	(4,488)
Profit (loss) for the year/period	nd	(744)	(3,083)

As mentioned earlier, the company is currently working to implement a new long term business plan to kick-start and develop business and pursue greater operational efficiency.

Statement of financial position	30 June 2011	31 December 2010
Non-current assets	37,448	37,674
Current assets	9,682	5,758
Total assets	47,130	43,432
Non-current borrowings and provisions	6,635	6,444
Net financial position - continuing operations	27,397	27,039
Net financial position - discontinued operations	(149)	(4,143)
Equity attributable to the owners of the parent	12,091	12,821
Equity attributable to non-controlling interests	1,156	1,271
Total equity and liabilities	47,130	43,432



Net financial position	31 December 2011	30 June 2011	31 December 2010
Net financial position - continuing operations	(31,071)	(27,397)	(27,039)
Net financial position - discontinued operations	110	149	4,143
Total equity and liabilities	(30,961)	(27,248)	(22,896)

19. Deferred tax assets

These relate to the recognition, in the financial statements at 31 December 2011, of deferred tax assets on the temporary differences between the carrying amounts of recognized assets and liabilities and their tax amounts, as follows.

	31/12/2011		31/12/2010	
	Temporary differences	Tax effect	Temporary differences	Tax effect
Deferred tax assets				
Taxed allowance for impairment	10,094	2,775	8,808	2,424
Tax losses carried forward	47	-	68	19
Taxed and returned provisions for risk and charges	1,002	311	1,055	327
Taxed provision for inventory write-down	741	233	643	202
Entertainment expenses deductible in future years	-	-	5	1
Directors' fees	843	232	709	195
Consolidation entries for write-off of intra-group trade relations	818	257	1,240	386
Consolidation entries for transfer of the intra-group sale of titles	2,614	821	2,876	903
Other temporary differences	571	179	408	131
Total deferred tax assets	16,730	4,808	15,812	4,588
Deferred tax liabilities				
Different accounting treatment of post-employment benefits	(227)	(49)	(229)	(63)
Different accounting treatment of land depreciation	(86)	(25)	(143)	(45)
Total deferred tax liabilities	(313)	(74)	(372)	(108)
Net deferred tax assets	16,417	4,734	15,440	4,480

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

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20. Inventories

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



	31/12/11	31/12/10	Change
Raw materials, consumables and supplies	2,970	2,408	562
Work-in-progress and bordereau	238	256	(18)
Books	181	288	(107)
Total	3,389	2,952	437

- Raw materials

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

- Work-in-progress

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

- Finished products

Finished products include Cairo Editore and Cairo Publishing S.r.l. inventories of books and monographic issues, measured at the lower of cost and estimated realizable value.

21. Trade receivables

Trade receivables can be analyzed as follows:

	31/12/11	31/12/10	Change
Trade receivables	119,038	103,476	15,562
Allowance for impairment	(10,990)	(9,534)	(1,456)
Total trade receivables	108,048	93,942	14,106

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

The ageing of trade receivables by due date as at 31 December 2011 versus 31 December 2010 is as follows:



31 December 2011	Current	Past due between 30 and 60 days	Past due between 61 and 90 days	Past due between 91 and 180 days	Past due over 180 days	Total
Trade receivables	100,929	2,395	1,415	2,369	11,930	119,038
Allowance for impairment	(890)	(249)	(263)	(275)	(9,313)	(10,990)
Net trade receivables	100,039	2,146	1,152	2,094	2,617	108,048

31 December 2010	Current	Past due between 30 and 60 days	Past due between 61 and 90 days	Past due between 91 and 180 days	Past due over 180 days	Total
Trade receivables	84,876	2,290	1,002	2,331	12,977	103,476
Allowance for impairment	(1,170)	(226)	(204)	(292)	(7,642)	(9,534)
Net trade receivables	83,706	2,064	798	2,039	5,335	93,942

In terms of concentration, the top 10 customers represent roughly 16% (18% in 2010) of total advertising sales, whilst the top 100 customers represent 57% (58% in 2010). These ratios are basically in line with prior years.

The publishing segment presents a limited exposure to credit risk as publishing revenue is substantially generated by one sole party – the Group - whilst for distribution revenues, the distribution contract provides for an advance payment equal to a significant percentage of the estimated sales of each magazine.

In 2011, the allowance for impairment increased by Euro 1,456 thousand, with accruals of Euro 2,438 thousand and utilization of Euro 982 thousand.

Trade receivables due from Torino Football Club S.p.A. included: Euro 37 thousand to Cairo Pubblicità for contractual relations as described in Note 36, Euro 239 thousand to Cairo Communication for administrative services provided, and Euro 19 thousand to Cairo Editore for various recharged expenses.

22. Other receivables and other current assets

These can be analyzed as follows:



	31/12/11	31/12/10	Change
Withholding taxes on interest	1	3	(2)
Prepaid IRAP	185	20	165
Tax assets	770	967	(197)
VAT credit	1,202	291	911
Total tax assets	2,158	1,281	877
One-off payment Sportitalia	1,500	2,000	(500)
Publishers' advances	2,722	2,563	159
Other prepayment	687	769	(82)
Other assets	454	8,179	(7,725)
Total other receivables and other current assets	7,521	14,792	(7,271)

“One-off payment Sportitalia”, amounting to Euro 1,500 thousand, included the residual amount of the one-off payment made in December 2009 to the publisher Interactive Group for the signing of the exclusive advertising concession contract on the digital and satellite Sportitalia and Sportitalia 2 channels and on the www.sportitalia.com website.

“Publishers’ advances” included the residual amount of the receivable which arose in 2010 from Interactive Group and equal to the difference between the amount accrued and the advances paid in 2010.

In 2011, the accrued publishers’ amount exceeded advances paid for such year.

As at 31 December 2010, other assets also included Euro 7.5 million, the credit balance from Telepiù arising from the arbitration award mentioned in Note 2, which Telepiù had argued it was entitled to offset against the restricted deposit illustrated in the 2010 report, a right which Cairo had challenged in court.

In August 2011, the Court of Milan ruled against the claim filed by Cairo Communication SpA, and in favour of Telepiù’s right to offset, up to the relevant amount, its liability arising from the arbitration award issued on 27 January 2011 against the amount held in the restricted deposit.

In the consolidated financial statements at 31 December 2011, the foregoing receivable was therefore offset (i) against the amount payable to Telepiù (6.9 million Euro) recorded in “trade payables” (arising from invoices issued by Telepiù following the circumstances that led to the termination of the concession contract) and (ii) against “other liabilities” referring to the deferred interest accrued (Euro 557 thousand) on the foregoing restricted deposit held with Telepiù SpA. The variation in trade and other liabilities is, therefore, partly due to this offsetting.



23. Securities and other current financial assets

As at 31 December 2010, the item included Euro 79 thousand referring to the current financial assets disposed of during the year.

24. Cash and cash equivalents

The item can be analyzed as follows:

	31/12/11	31/12/10	Change
Bank and postal accounts	54,682	58,242	(3,560)
Cash	19	18	1
Total cash and cash equivalents	54,701	58,260	(3,559)

The Group's net financial position can be analyzed as follows:

	31/12/11	31/12/10	Change
Cash and cash equivalents	54,701	58,260	(3,559)
Current financial assets	-	79	(79)
Total	54,701	58,339	(3,638)

The Group continued to manage its cash and cash equivalent prudently, investing for the most part in interbank deposits.

As shown in the statement of cash flows, the negative variation of the net financial position, amounting to approximately Euro 3.6 million, is mainly ascribable to the positive cash flows from operating activities netted against the distribution of ordinary and interim dividends for Euro 31.1 million.

In the 2010 statement of cash flows, "net final cash and cash equivalents" did not include current financial assets of Euro 79 thousand.

25. Equity

As at 31 December 2011, consolidated equity was Euro 63,727 thousand, including profit for the year.

In 2011:

- at their the meeting of 28 April 2011 the shareholders approved the distribution of a dividend of 0.25 Euro per share, inclusive of tax, for a total of Euro 19.4 million;
- the Board of Directors, on 30 November 2011, approved the distribution of an interim dividend for 2011, amounting to Euro 0.15 per share (inclusive of tax), for a total of Euro 11.7 million, Euro 10.2 million of which had been paid out at 31 December 2011.



The share capital as at 31 December 2011 was Euro 4,074 thousand, subscribed and fully paid up, comprising 78,343,400 ordinary shares to which no nominal amount is attributed.

In accordance with the bylaws, the shares are registered, indivisible and freely transferable. They are object to the requirements of representation, legitimization, circulation of the company investment required for securities traded on regulated markets. 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 having special rights of control 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, including bonus issues.

The reclassification of the investment in Dmail Group S.p.A from “investments in other companies” to “investments in associates”, illustrated in Note 18, led to the reclassification of the negative equity reserve related to available-for-sale financial assets, amounting to Euro 2,124 thousand, to “retained profit”.

The reconciliation between the number of outstanding shares at 31 December 2010 and at 31 December 2011 is as follows:

	31/12/2010	Purchase of	Sale of	31/12/2011
		treasury shares	treasury shares	
Ordinary shares issued	78,343,400	-	-	78,343,400
Less: treasury shares	(771,326)	-	400,000	(371,326)
Ordinary outstanding shares	77,572,074	-	400,000	77,972,074

In 2011, as part of the share buy-back plans, 400,000 treasury shares (0.511% of the share capital) were sold following entry of an institutional investor of prominent standing in the shareholding structure at a unit price of Euro 3.00 per share, equivalent to a total of Euro 1.2 million. At 31 December 2011, Cairo Communication held a total of 371,326 treasury shares, or 0.474% of share capital, subject to art. 2357 ter of the Italian Civil Code.

26. Post-employment benefits

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



COMPANY	Cairo Communication	Cairo Pubblicità	Cairo Editore	Cairo Pubblicità Agent termination benefits
TYPE OF VALUATION	SS	SS	SS	
Mortality table	Sim/f 1998	Sim/f 1998	Sim/f 1998	Sim/f 1998
Reduction of mortality table	20.00%	20.00%	20.00%	20.00%
Advance request rate MANAGER	1.00%	0.50%	0.50%	-
Advance request rate JUNIOR MANAGER	2.00%	0.50%	2.00%	-
Advance request rate EMPLOYEE	2.00%	0.50%	2.00%	-
Advance request rate JOURNALIST	not present	not present	2.00%	
Salary increase rate MANAGER	5.00%	2.50%	0.00%	-
Salary increase rate JUNIOR MANAGER	4.00%	2.50%	0.00%	-
Salary increase rate EMPLOYEE	4.00%	2.50%	0.00%	-
Salary increase rate JOURNALIST	not present	not present	0.00%	
Fee increase rate AGENT	-	-	-	4,00%
Future inflation rate	2.00%	2.00%	2.00%	2.00%
Discount rate	4.00%	4.00%	4.00%	4.50%
Resignation rate MANAGER	2.00%	0.50%	0.00%	-
Resignation rate JUNIOR MANAGER	2.00%	0.50%	5.00%	-
Resignation rate EMPLOYEE	7.00%	2.50%	6.50%	-
Resignation rate JOURNALIST	not present	not present	5.00%	
Resignation rate AGENT	-	-	-	15,00%

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

	Balance as at 31/12/11	Balance as at 31/12/10
Opening balance	3,891	3,813
Increase	724	651
Profit (loss) from actuarial valuations	2	(6)
Utilization/other movements	(719)	(567)
Closing balance	3,898	3,891

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

	31/12/2011	31/12/2010	Average
Managers	14	15	14
Junior Managers	20	19	20
Employees	135	127	131
Journalists / Freelance journalists	106	100	103
Total	275	261	268



27. Non-current financial liabilities

The Group has none.

28. Provisions for risks and charges

The provisions for risk and charges include:

	31/12/11	31/12/10	Change
Pension and similar provision	1,159	956	203
Provision for publishing returns	474	697	(223)
Provision for liquidation	101	102	(1)
Provision for other risks and charges	448	369	79
Total	2,182	2,124	58

The composition and movements of this item can be analyzed as follows:

	Pension and similar provision	Publishing returns	Liquidation	Other risks and charges	Total
Closing balance at 31/12/2010	956	697	102	369	2,124
Increases	203	-	14	100	317
Utilizations	-	(223)	(15)	(21)	(259)
Closing balance at 31/12/2011	1,159	474	101	448	2,182

The provision for “pensions and similar provisions” was accrued by Cairo Pubblicità S.p.A. in respect of the agents’ termination benefits as prescribed by law and contracts, subject to actuarial valuations based on the assumptions illustrated in [Note 26](#).

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

The “provision for liquidation” refers to provisions made to cover the liquidation costs of Diellesei S.r.l. in liquidation; the related provisions are recognized in profit / (loss) from discontinued operations.

The “provision for other risks and charges” includes provisions that are considered prudently necessary for charges that could arise from current legal proceedings and contractual disputes that remain unsettled.



29. Current loans and borrowings

As at 31 December 2011, there were no “loans and borrowings”.

30. Trade payables

Trade payables amounted to Euro 107,029 thousand, increasing by Euro 9,242 thousand on 31 December 2010, and relate entirely to the current year. The portion related to Diellesei S.r.l. in liquidation amounted to Euro 69 thousand.

Trade payables include Euro 280 thousand due to the associate Torino Football Club S.p.A. for amounts accrued for the advertising concession contract signed with Cairo Pubblicità S.p.A.

31. Receivables from and payables to the Parent

Receivables from and payables to the parent of Euro 1,467 thousand and Euro 2,156 thousand, respectively, refer mainly to the parent UT Communications S.p.A. and arise from the national tax consolidation scheme, under art. 117/129 of the TUIR (Consolidated income tax act), to which Cairo Communication S.p.A. and its subsidiaries Cairo Editore S.p.A., Cairo Pubblicità S.p.A., Diellesei S.r.l. in liquidation, Cairo Due S.r.l. and Cairo Publishing S.r.l. agreed to adhere.

32. Tax liabilities

Tax liabilities can be broken down as follows:

	31/12/2011	31/12/2010	Change
Withholding taxes on employees	843	776	67
Withholding taxes on contract workers	387	424	(37)
IRAP payables	238	666	(428)
VAT payables	476	285	191
Other	61	130	(69)
Total tax liabilities	2,005	2,281	(276)

33. Other current liabilities

These can be analyzed as follows:



	31/12/2011	31/12/2010	Change
Social security charges payables	1,855	1,554	301
Advances on subscriptions	1,867	1,818	49
Shareholders liabilities for dividends	1,456	-	1,456
Due to personnel (holidays, bonuses, etc.)	4,391	3,398	993
Accrued expenses and deferred income	369	695	(326)
Other liabilities	2,506	1,435	1,071
Total other current liabilities	12,444	8,900	3,544

Social security charges payables amount to Euro 1,855 thousand and relate entirely to the current year. The Group normally pays social security charges and withholding taxes in accordance with legally defined due dates.

Advances relate to that portion of subscription payments received from customers to whom magazines have not yet been issued, as well as prepayments for specially commissioned future editions.

As at 31 December 2010, “accrued expenses and deferred income” had also included interest accrued on the current account already mentioned held with Telepiù S.p.A. Following the award issued on 27 January 2010, the deposit, including interest accrued, was released to Cairo Communication.

“Other liabilities” include Euro 0.5 million (Euro 0.8 million as at 31 December 2009) related to the rebilling of the share of print media bad debts, the losses of which have not been fully ascertained.

34. Commitments and risks

Main guarantees given by third parties in favour of the Cairo Communication Group are as follows:

- a bank surety of Euro 16.8 million, expiring on 15 June 2012 issued by Banca Popolare di Milano to Telecom Italia Media S.p.A. (Telecom Group) securing payment of minimum guaranteed fees specified in its contract for the exclusive sale of television advertising space on LA7;
- other sureties totaling Euro 234 thousand by bank and insurance institutes.

35. Other information

The arbitration proceeding started in July 2010 by Cairo Communication against Telepiù Srl was concluded with the award rendered by the Board of Arbitrators on 16 September 2011. In such procedure, Cairo Communication was claiming that the breach by Telepiù (definitively acknowledged by the arbitration award rendered on 27 January 2010) of the 10 years exclusive concession for the advertising sale on Telepiù channels granted to Cairo TV by Telepiù, implies also the breach by Telepiù of the



contract for the sale of the shares of Cairo TV (former Telepiù Pubblicità), being such contracts contextual and related.

The Board of Arbitrators acknowledged the claim filed by Cairo Communication, limited to breach of contract, but rejected Cairo's claim for compensation for damage arising from such breach by Telepiù. The Board of Arbitrators - with the motivated dissenting opinion of Prof. Francesco Benatti – taken the view that relevant damage was absorbed by the damage for loss of profit compensated to Cairo Communication (as acquirer of Cairo TV) under the foregoing award of 27 January 2010.

The outcome of the arbitration had no consequence on the financial statements as at 31 December 2011, with the exception of the legal expenses paid, which were recognised in profit or loss.

In 2011, the three-year contractual target (Euro 378 million) securing Cairo a three-year renewal (2012-2014) of the advertising concession contract, was achieved; in October 2011, Cairo Communication and TIMedia acknowledged that the agreement entered into on 19 November 2008 was to be deemed renewed for the further three-year period of 2012-2014, in accordance with the terms and conditions established under the contract and under the additional agreements thereto. The advertising concession contract regarding LA7 sets minimum annual gross advertising revenue in 2012 of Euro 126 million, with minimum annual guaranteed fees for Telecom Italia Media of Euro 88.2 million (70%).

In December 2010, Telecom Italia Media and Cairo agreed to revise the advertising concession contract of 19 November 2008. Specifically, for 2011 and for the 2012-2014 three-year period, both set additional annual advertising revenue targets (unguaranteed) with respect to the minimum annual revenue, proportional to the achievement by Telecom Italia Media of annual targets of share higher than the given 3% for LA7's share. Cairo's achievement of these additional targets, or payment to Telecom Italia Media of equivalent dues, will entitle Cairo to renew the contract up to 31 December 2019. Otherwise, Telecom Italia Media is authorized to withdraw from the contract.

The contract regarding the LA7d digital channel sets minimum gross advertising revenue in 2012 of Euro 8 million for a 0.2% share of the channel, with minimum guaranteed fees for Telecom Italia Media of Euro 5.6 million, paid as per the contract on a monthly basis. A result higher or lower than the 0.2% share will produce a corresponding increase or decrease in minimum annual revenue and in the guaranteed minimum fee.

As the result of a VAT audit performed on Cairo Communication S.p.A., in its report, the Guardia di Finanza (the Italian Tax Police) identified some findings for 2002 and subsequent years (2003, 2004 and 2005) relating to the application if any of VAT on dealing rights charged to media centres, which were subsequently included in the final audit reports issued in January 2008 (for 2002), in June 2008 (for 2003, 2004 and 2005), and on 24 November 2011 (for 2006), which the company has challenged.



Regarding 2006, at the date of writing of these notes, the hearing for the appeal has yet to be scheduled. For all the periods in question (2002, 2003, 2004 and 2005), the Provincial Tax Commission of Milan has ruled in favour of the Company's appeals. The Agenzia delle Entrate (Tax Authority Agency) has filed an appeal with the Regional Tax Commission of Milan against these decisions. In April 2010, the Regional Tax Commission of Milan ruled in favour of the Agency's appeal regarding 2002, and in October 2011 also regarding the years 2003, 2004 and 2005, on questionable grounds. Cairo Communication has already appealed to the Court of Cassation against judgement regarding 2002, for which the tax claim amounts to Euro 41 thousand, in addition to penalties of Euro 51 thousand, and will appeal to the Court of Cassation also for the subsequent years 2003, 2004 and 2005, for which the tax claim totals Euro 247 thousand, in addition to penalties of Euro 272 thousand and interest. The tax claim for 2006 amounts to Euro 63 thousand, in addition to penalties of Euro 79 thousand and interest. Based also on the advice of its tax consultants, the Directors believe there are fundamental reasons and rights to oppose the relevant findings.

The Agenzia delle Entrate (Italian Tax Authorities) challenged Cairo Communication for using excess IRES from the 2006 tax return to offset 2007 payments. While not challenging the relevant credit to Cairo Communication, the Italian Tax Authorities has refuted its use for offsetting purposes on grounds of non-compliance of procedures (specifically, the Italian Tax Authorities claim that use of the credit would have required a formal credit transfer from the Company to the Company). On 6 July 2010, the Company received a tax bill, substantially for payment of Euro 28 thousand as interest, and Euro 145 thousand as penalties, since the credit has not been disallowed. Cairo Communication has filed an appeal with the Provincial Tax Commission. As at the date of the writing of these notes, the hearing for the appeal has yet to be scheduled. Based also on the advice of its tax consultants, the Directors believe there are fundamental reasons and rights to oppose the relevant findings.

A previous shareholder of the subsidiary Il Trovatore S.r.l., who did not sell its shares to the parent company, had risen a claim against the current minority shareholder, involving Cairo Communication S.p.A. indirectly, questioning the validity of the contract under which he had sold the quota in the limited partnership Il Trovatore and the transformation of this company from a limited partnership to a limited liability company (S.r.l.), and requesting the annulment of the subsequent acquisition of the company by Cairo Communication. The requests of the counterparty were rejected in the first instance, although the counterparty has filed an appeal. Based also on the advice of its legal counsels, the Directors believe that the grounds of these claims are such as not to request a specific accrual.

In its hearing on 18 October 2010, the Provincial Tax Commission of Milan acknowledged the appeal filed by Cairo Editore S.p.A. regarding the assessment notice for tax year 2004, illustrated in the notes to



the financial statements at 31 December 2010. The Italian Tax Authorities has filed an appeal with the Regional Tax Commission of Milan against the ruling. At the date of writing of these notes, the hearing for the appeal has yet to be scheduled. Based also on the advice of its tax consultants, the Directors believe there are fundamental reasons and rights to oppose the relevant findings.

Immobiledit S.r.l., the subsidiary merged into Cairo Editore in 2009, is party to a lawsuit regarding a property purchase. In 2004, the Court of Milan, in the first instance, had rejected the adverse party's claims, ordering the adverse party to pay damages, to settle in separate proceedings, and to repay legal expenses. The Court of Appeal has partly reversed the ruling of first instance, ordering Immobiledit to pay for the expenses of first and second instance, rejecting the adverse party's claim for damages, which has appealed to the Court of Cassation against the rejection. Based also on the advice of its legal consultants, the Directors believe that the adverse party's appeal does not require any relevant accrual against it.

It is also noted that:

- the consolidated financial statements at 31 December 2011 do not include any receivables or payables with a residual term exceeding five years.
- no company within the scope of consolidation has capitalized any financial expenses.

36. Related party transactions

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

The Group holds relations with the parent (UT Communications S.p.A.) and with the latter's subsidiaries at conditions deemed normal in their respective relevant markets, taking into account the nature of services offered. Below is a summary of the statement of financial position and income statement balances deriving from the transactions made in 2011 with these related parties. The identification and disclosure regarding related parties were made in accordance with the IAS 24 Revised. Based on this Standard, related parties were identified as the subsidiaries and associates of the Group, as shown in the list attached to this Annual Report ("List of investments of the Group at 31 December 2011"). The Ultimate Parent of the Group is U.T. Communications S.p.A.

The Group holds investments in the subsidiary Cairo Sport (Euro 10 thousand) and in the associate Dmail Group (Euro 1,461 thousand).

The effects of these transactions on the 2011 consolidated income statement of the Cairo Communication Group are as follows:



Revenues and costs (€ thousands)	Revenue	Costs	Financial income	Financial expense
Parent				
UT Communications S.p.A.	-	-	-	-
Jointly-controlled companies				
Torino FC S.p.A.	147	(1,748)	-	-
Mp Service	-	-	-	-
Total	147	(1,748)	-	-

The effects of these relations on the consolidated statement of financial position of the Cairo Communication Group as at 31 December 2011 are as follows:

Receivables and financial assets (€ thousands)	Trade receivables	Other receivables and current assets	Receivables tax consolidation scheme	Other current financial assets
Parent				
UT Communications S.p.A.	61	-	1,467	-
Jointly-controlled companies				
Torino FC S.p.A.	295	-	-	-
Mp Service	24	-	-	-
Total	380	-	1,467	-

Payables and financial liabilities (€ thousands)	Trade payables	Other payables and current liabilities	Payables tax consolidation scheme	Other current financial liabilities
Parent				
UT Communications S.p.A.	-	-	2,156	-
Jointly-controlled companies				
Torino FC S.p.A.	315	150	-	-
Other				
Dividends to shareholders		1,456		
Total	315	1,606	2,156	-

Transactions made during the year with related parties, including intra-group transactions, are qualified as neither atypical nor unusual, as they are considered part of the ordinary business conducted by Group companies. These transactions are settled at market conditions, taking into account the nature of goods and services offered.

In 2011, the relations and transactions with the parent U.T. Communications and with its subsidiaries can be analyzed as follows:

- the concession contract signed with Torino F.C. S.p.A., a subsidiary of UT Communications, for the sale of advertising space at the Olimpico football pitch and promotional sponsorship packages. This contract resulted in the payment in 2011 of Euro 1.6 million to the concession holder against total revenue of Euro 2.1 million, net of agency discounts. Cairo Pubblicità earned further commissions of Euro 37 thousand. As part of the advertising contract, Cairo Pubblicità also purchased football tickets worth Euro 27 thousand and recharged Torino F.C. pertaining costs of Euro 10 thousand;



- the contract signed by Cairo Communication S.p.A. and Torino F.C. for the provision of administrative services such as bookkeeping, which provides for an annual consideration of Euro 100 thousand;
- the agreement relating to the purchase of advertising space at the Olimpico football pitch between Cairo Editore and Torino FC., for an annual consideration of Euro 100 thousand;
- the purchase by Cairo Pubblicità of receivables due to Torino F.C. S.p.A. from Dahlia TV S.p.A.; specifically, the transaction involved the sale with recourse from Torino FC to Cairo Pubblicità of receivables accrued by Torino FC to Dahlia TV for a total of Euro 300 thousand, under a sponsorship contract signed on 5 October 2009, promoted by Cairo Pubblicità, entitling a fee from Torino FC.
- as already mentioned, Cairo Communication and its subsidiaries Cairo Editore S.p.A., Cairo Pubblicità S.p.A., Diellesei S.r.l. in liquidation, Cairo Due S.r.l. and Cairo Publishing S.r.l. adhered to the national tax consolidation scheme of UT Communications S.p.A. The consolidation scheme, which governs the financial aspects of amounts paid or received in return for the advantages or disadvantages resulting from the tax consolidation, specifically provides that any greater charges or minor benefits that may accrue to the Company resulting from adhesion to the scheme, be suitably remunerated by the parent. In relation to this, the consolidated financial statements at 31 December 2011 include receivables from and payables to the parent UT Communications S.p.A. of Euro 1,467 thousand and Euro 2,156 thousand, respectively.

Fees paid to directors in 2011 are analyzed in Note 38 “*Board of Directors’ and Board of Statutory Auditors’ fees*”

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

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

37. Risk management

Liquidity risk

The Cairo Communication Group is not exposed to liquidity risk, in that on one hand, significant financial resources are held with a net available positive financial position of Euro 53.8 million whilst, on the other hand, the Group attempts to ensure that an appropriate ability to generate cash is maintained, even under the current market conditions.



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

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

Currency and interest rate risks

The Cairo Communication Group is not exposed to these risks, in that on one hand, there is no loan finance, whilst on the other hand Group operations are carried out exclusively in Italy and revenue is generated entirely within the country and main costs are incurred in Euro.

The interest rate risk only affects the yield on available cash. Specifically, with reference to the net financial position at 31 December 2011, a one percentage point reduction in the interest rate would result in a reduction in annual financial income of approximately Euro 0.5 million.

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

Given the limited exposure to both interest rate and FOREX risk, the Group does not use financial derivative and/or hedging instruments.

Credit risk

The Group is exposed to credit risk, primarily in relation to its advertising sales activities. This risk is however mitigated by the fact that the exposure is divided across a large number of customers and that credit monitoring and control procedures are in place. In terms of concentration, the top 10 customers represent approximately 16% (18% in 2010) of total sales, whilst the top 100 customers represent 57% (58% in 2010). These ratios are basically in line with prior years.

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

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

The Group's maximum theoretical exposure to credit risks at 31 December 2011 is given by the carrying amount of trade receivables and other recognized current assets totaling Euro 117.1 million (108.8



million at 31 December 2010), and by the nominal amount of guarantees given on third-party debts or commitments as indicated in Note 34.

The credit risks associated with cash and cash equivalents, with a maximum theoretical exposure of Euro 54.7 million (Euro 58.3 million at 31 December 2010), are considered irrelevant as they are deposits spread across various banks.

...

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

The following information refers to fees paid in 2011, to Directors, Statutory Auditors, General Directors and key management personnel, also in subsidiaries, analyzed in detail in the Remuneration Report, prepared pursuant to art. 123 ter of the TUF:

Name and surname	Position	Term of office	Term expiry date	Fees	Benefits in kind *	Bonuses and other incentives	Other fees **
Urbano R. Cairo	Chairman BoD	Jan.-Dec. 2011	31/12/2011	700	16	-	505
Uberto Fornara	CEO	Jan.-Dec. 2011	31/12/2011	475	4	-	384
Roberto Cairo	Director	Jan.-Dec. 2011	31/12/2011	20	-	-	-
Marco Janni	Director	Jan.-Dec. 2011	31/12/2011	33	-	-	-
Antonio Magnocavallo	Director	Jan.-Dec. 2011	31/12/2011	33	-	-	-
Marco Pompignoli	Director	Jan.-Dec. 2011	31/12/2011	220	4	-	279
Roberto Rezzonico	Director	Jan.-Dec. 2011	31/12/2011	40	-	-	-
Mauro Sala	Director	Jan.-Dec. 2011	31/12/2011	33	-	-	-
Key management personnel	N/A	Jan.-Dec. 2011	N/A	-	8	-	763
Marco Moroni	Chairman Board of Statutory Auditors	Jan.-Dec. 2011	31/12/2011	30	-	-	16
Maria Pia Maspes	Standing auditor	Jan.-Dec. 2011	31/12/2011	20	-	-	10
Marco Giuliani	Standing auditor	Jan.-Dec. 2011	31/12/2011	20	-	-	-

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

- Urbano Cairo: fees pursuant to art. 2389, paragraph 3, Italian Civil Code (Euro 680 thousand).
- Uberto Fornara: fees pursuant to art. 2389, paragraph 3, Italian Civil Code (Euro 455 thousand).



- *Marco Janni: fees for attendance in meetings of the Remuneration Committee and Related Party Committee (Euro 13 thousand);*
- *Antonio Magnocavallo: fees for attendance in meetings of the Remuneration Committee and the Audit Committee (Euro 13 thousand);*
- *Marco Pompignoli: fees pursuant to art. 2389, paragraph 3 Italian Civil Code (Euro 200 thousand);*
- *Roberto Rezzonico: fees for attendance in meetings of the Audit Committee and Related Party Committee (Euro 20 thousand).*
- *Mauro Sala: fees for attendance in meetings of the Remuneration Committee, Audit Committee and Related Party Committee (Euro 13 thousand);*

*** Other fees refers to:*

- *Urbano Cairo: fees for his duties performed for Cairo Editore (Euro 500 thousand) and other companies of the Group (Euro 5 thousand).*
- *Uberto Fornara: gross fees as senior manager payable by Cairo Communication (Euro 279 thousand) and fees for his duties performed for Cairo Pubblicità (Euro 100 thousand) and other companies of the Group (Euro 5 thousand).*
- *Marco Pompignoli: gross fees as senior manager payable by Cairo Communication (Euro 184 thousand) and fees for his duties performed for Cairo Pubblicità (Euro 90 thousand) and other companies of the Group (Euro 5 thousand).*
- *Key management personnel: gross fixed annual Group fees for a total of Euro 629 thousand (comprising gross remuneration as manager) and variable incentive components amounting to 134 thousand.*

On 28 April 2011, the Shareholders of Cairo Communication S.p.A. had resolved on annual fees of Euro 220 thousand, which the meeting of the Board of Directors on 3 May 2011 had split up in, respectively, Euro 20 thousand as fees for the Remuneration Committee, the Internal Control Committee and the Related Party Committee. The remaining Euro 160 thousand was split up among the eight directors.

On 12 May 2011, the Board of Directors, on the proposal of the Remuneration Committee and the favourable opinion of the Related Party Committee, pursuant to art. 2389, paragraph 3 of the Italian Civil Code, resolved for:

- fees to Chairman Urbano Cairo, CEO Uberto Fornara, and Director Marco Pompignoli, who hold particular responsibilities, amounting respectively to Euro 480 thousand, Euro 60 thousand and Euro 90 thousand,
- a variable fee mechanism for CEO Uberto Fornara, based mainly on advertising revenue growth targets.

Under the decisions adopted by the Board of Directors on 12 May 2011 and on 14 February 2012, on the proposal of the Remuneration Committee and the favourable opinion of the Related Party Committee, further fees were established for 2011, specifically:

- for the Chairman – based on overall quality assessments on results achieved - Euro 200 thousand.
- for CEO Uberto Fornara – based on the variable fee mechanism defined by the Board on 12 May 2011 based mainly on advertising revenue growth targets - Euro 395 thousand,
- for Director Marco Pompignoli – based on overall quality assessments on duties performed - Euro 110 thousand.

Moreover, under Consob Communication n. DEM/11012984 of 24 February 2011, point 2.3, letters (a) and (f) it should be noted that:

- there are no agreements in place between the Company and the directors for any fee 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 Company and Uberto Fornara, subject to non-competition commitments in the year following termination of his employment with the Company, for payment of



a gross monthly fee of 150% solely of the gross monthly salary in his capacity as manager, which will become effective upon termination of his relationship.

Moreover, there are no succession plans regarding executive directors.

At 31 December 2011, the key management personnel of the Cairo Communication Group was composed of:

- Giuseppe Ferrauto (board member, General Manager and manager of Cairo Editore);
- Giuliano Cesari (executive board member and General Manager of Cairo Pubblicità) and manager of Cairo Communication.

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

39. Transactions deriving from atypical and/or unusual transactions

Pursuant to Consob Communication of 28 July 2006 n. DEM/6064296, we note that in 2011, Cairo Communication did not perform any atypical and/or unusual transactions as defined by the above Communication. Moreover, there are no cost and revenue components deriving from events or transactions which by their nature or size are considered non-recurring.

As explained in Note 2, in the 2010 consolidated income statement, income deriving from the arbitration pending from 2004 between Cairo Communication S.p.A. and Telepiù S.r.l. has been shown separately owing to its non-recurring nature and size.

For the Board of Directors
Chairman Urbano Cairo



Cairo Communication S.p.A.
Consolidated Financial Statements at 31 December 2011
- Appendices



APPENDIX 1

CAIRO COMMUNICATION GROUP COMPANIES

As requested by Consob, the following table lists all Cairo Communication Group companies, showing the company name, registered office, quota capital, and shares held, whether directly or indirectly, by the Parent Cairo Communication S.p.A. and by each subsidiary, the consolidation method and the list of investments, measured using the equity method.

Companies	Registered office	Quota capital at 31/12/11	% Ownership	Reporting date	Business object	Consolidation method
Cairo Communication S.p.A.	Milan	4,074		31/12	Advertising	Full
Cairo Editore S.p.A.	Milan	1,043	99.95	31/12	Publishing	Full
Diellesei S.r.l. in liquidation	Milan	2,000	60	31/12	In liquidation	Full re assets and liabilities (*)
Cairo Due S.r.l.	Milan	47	100	31/12	Advertising	Full
Cairo Pubblicità S.p.A.	Milan	2,818	100	31/12	Advertising	Full
Cairo Publishing S.r.l.	Milan	10	100	31/12	Publishing	Full
Il Trovatore S.r.l.	Milan	25	80	31/12	Internet	Full
Edizioni Anabasi S.r.l.	Milan	10	99.95	31/12	Publishing	Full
Dmail Group S.p.A.	Milan	15,300	10	31/12	E-commerce - Retail Publishing	Single line

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



APPENDIX

Information pursuant to Article 149-duodecies of Consob Issuers' regulations

The following statement, prepared pursuant to art. 149-duodecies of Consob Issuer' regulations, shows the fees for the current year for auditing services and non-audit services provided by the independent auditors.

€ thousands	Services provided	Fees for the year
Audit services		
Audit of separate financial statements, consolidated financial statements, quarterly checks and checks of minor companies	KPMG S.p.A.	67
Subsidiaries		
- Cairo Pubblicità S.p.A.	KPMG S.p.A.	34
- Cairo Editore S.p.A.	Deloitte & Touche S.p.A.	61
Attestation services		
Parent company	KPMG S.p.A.*	20
Subsidiaries		
- Cairo Editore S.p.A.	Deloitte & Touche S.p.A.	3

* Fairness opinion on the distribution of interim dividends pursuant to art. 2433 bis, paragraph 5 of the Italian Civil Code



DECLARATION ABOUT THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81 TER OF CONSOB REGULATION 11971 OF 14 MAY 1999 AND SUBSEQUENT MODIFICATIONS AND AMENDMENTS

1. The undersigned Urbano Roberto Cairo, as Chairman of the Board of Directors, and Marco Pompignoli, as Financial Reporting Manager of Cairo Communication S.p.A., also in accordance with art. 154 bis, paragraphs 3 and 4 of Leg. Dec. February 24, 1998 – no. 58, confirm:

- the suitability of the characteristics of the company and
- the effective application of administrative and accounting procedures for the preparation of the 2011 consolidated financial statements.

2. We also confirm that

2.1 the consolidated financial statements at 31 December 2011:

- a) have been prepared in compliance with International Financial Reporting Standards endorsed by the European Union, pursuant to EEC Regulation 1606/2002 of the European Parliament and Council, of 19 July 2002;
- b) are consistent with the accounting records and books of the Company;
- c) give a true and fair view of the financial position and results of operations of the Issuer and the companies included in the scope of consolidation;

2.2 the Directors' Report contains a reliable analysis on performance and operating results, as well as on the position of the Issuer and on the companies included in the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

Milan, 12 March 2012

For the Board of Directors

Chairman

.....

(Urbano Roberto Cairo)

Financial Reporting Manager

.....

(Marco Pompignoli)

Report of the Board of Auditors to the Shareholders' Meeting of Cairo Communication S.p.A., pursuant to art. 153 of Legislative Decree 58/1998 and to art. 2429 of the Civil Code

Shareholders,

pursuant to art. 2429 of the Civil Code and to art. 153, paragraph 1, of Legislative Decree n. 58 of 24 February 1998, we hereby inform you that during the year ended 31 December 2011, we performed the oversight duties prescribed by law, by article 148 *et seq.* of the abovementioned Legislative Decree, by the instructions provided by CONSOB communications, taking also into account the standards of conduct recommended by the Italian Association of Public Accountants and Accounting Professionals.

The above being stated, the results of the prescribed oversight duties performed during the year ended 31 December 2011 are the following:

- we attended all the Shareholders' Meetings and those of the Board of Directors and Audit Committee held during the year, overseeing compliance with the laws, bylaws and regulations governing the functioning of Company bodies, and receiving from the Directors, according to the disclosure obligations to the Board of Auditors under art. 150, paragraph 1 of Legislative Decree n. 58/1958, timely and appropriate information on activities performed and on transactions of relevance, for their size and nature, made by the Company and its subsidiaries; we also ensured that actions decided and taken by the Directors complied with the laws and 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;
- to the extent of our responsibilities, we gathered information and oversaw the appropriateness of the Company's organizational structure and compliance with the principles of proper governance, and the timely execution of instructions given to subsidiaries; all these activities were conducted through direct observation, through information gathered from the managers of the department concerned and through meetings with the Audit Firm as part of a regular exchange of important data and information with such bodies;
- to the extent of our responsibilities, pursuant to art. 19 of Legislative Decree 39/2010, we gathered information and oversaw the adequacy and effectiveness of the audit system, and the activities conducted by the manager in charge, as well as the reliability of the administrative-accounting system to properly illustrate operational events, through information received from the managers of the departments concerned, by examining company documents and the activities conducted by the Audit Firm, by attending the meetings of the Audit Committee

and the meetings with the managers charged with supervising the operations of the audit system, as well as with the Financial Reporting Manager;

- during the year, we issued our opinion as prescribed by law on the determination of compensation to managers holding strategic responsibilities (art. 2389 of the Civil Code); we verified compliance with the Group's current compensation policy and with the proposals set forth by the Compensation Committee;
- pursuant to art. 19 of Legislative Decree 39/2010, we conducted oversight duties provided therein on: a) the disclosing of financial information; b) effectiveness of the internal control, internal audit and risk management systems; c) the statutory audit of annual and consolidated financial statements; d) independence of the Audit Firm, through direct observation, information gathered from the managers of the departments concerned, and analysis of the results of the activities conducted by the Audit Firm. In such context, we took note of the quarterly audits performed by the Audit Firm to ensure that the accounts were kept on a regular basis; from the Audit Firm, we received the Reports prescribed by art. 14 and by art. 19, paragraph 3, of Legislative Decree n. 39/2010, as well as the “Annual confirmation of independence” pursuant to art. 17, paragraph 9, lett. a) of Legislative Decree n. 39/2010; pursuant to art. 17, paragraph 9, lett. a) of said Decree, we analyzed the risks regarding independence of the Audit Firm and the measures it adopted to constrain such risks;
- during the regular meetings held with the Audit Firm, pursuant to the provisions of art. 150, paragraph 3, of Legislative Decree 58/1998, no aspects emerged regarding issues within our responsibility;
- we controlled the proper functioning of the audit system on Group companies and the appropriateness of instructions given to them, pursuant also to art. 114, paragraph 2, of Legislative Decree n. 58/1998;
- we controlled the activities being undertaken to update the Organization, Management and Control Model under Legislative Decree n. 231/2001 in order to implement the recent changes in legislation on “liable offences” provided for under the Decree;
- we oversaw compliance of the Procedure for Related Party Transactions adopted by the Company through specific Regulations;
- we verified the appropriateness of information regarding transactions with related parties or intra-group companies, held in the explanatory notes to the IAS/IFRS consolidated financial statements of the Cairo Communication Group and to the IAS/IFRS separate financial statements of Cairo Communication S.p.A., considering the size and structure of the Company;
- we controlled the implementation processes of corporate governance rules prescribed by the Code of Conduct of listed companies issued by Borsa Italiana S.p.A., as adopted by the Company;

- we oversaw the disclosing of financial information and verified compliance with the laws and regulations on the preparation and layout of the separate and consolidated financial statements, as well as the documents attached thereto. Specifically, the separate 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 no. 11971 of 14 May 1999 and subsequent amendments and supplements thereto;
- we assessed appropriateness, in terms of method, of the impairment testing put in place to verify the existence of a loss in value, if any, in the booked investment in Dmail Group S.p.A.

The specific indications to provide with this Report are listed below, in accordance with the provisions of the above-mentioned CONSOB Communication of 6 April 2001 and subsequent amendments:

1. We gathered information on the transactions of equity and financial relevance made during the period, also through subsidiaries, to verify that they were made in compliance with the laws and bylaws and that they were neither imprudent or such as to jeopardize the integrity of corporate assets. We certify that, to the best of our knowledge, these transactions were based on principles of proper governance and that the issues regarding potential or possible conflicts of interest were carefully assessed.
2. We received no report of atypical and/or unusual transactions made during the year, including intra-group transactions or transactions with related parties. Intragroup transactions or transactions with related parties of an ordinary nature, as well as their main financial effects, are illustrated in the Directors' Report on Operations and in the explanatory notes to the separate and consolidated financial statements. The Board of Auditors assessed that such transactions comply with the laws and bylaws, are in keeping with the Company's interest, and are not likely to give rise to doubts regarding the accuracy and completeness of the disclosure provided in the financial statements, the existence of conflicts of interest, safeguarding of company assets and protection of minority shareholders.
3. In our view, the information provided by the Directors in their Report, pursuant to art. 2428 of the Civil Code (Report on Operations), regarding also atypical and/or unusual transactions and ordinary operations, under the previous point, is to be considered exhaustive and complete.
4. the Audit Firm, KPMG S.p.A., with which we held regular meetings during the year, assigned the task of carrying out statutory auditing, today issued the audit reports under art. 14 of Legislative Decree n. 39/2010, on the separate and consolidated financial statements as at 31 December 2011, including the audit opinion pursuant to art. 14, paragraph 2, lett. e)

of Legislative Decree n. 39/2010 and to art. 123 bis of Legislative Decree n. 58/1998. These reports do not contain any issues of note or explanatory paragraphs.

5. there were no omissions, reprehensible facts or irregularities reportable to the competent authorities or to the supervisory bodies, or worthy of mention in this Report.
6. no complaints were received pursuant to art. 2408 of the Civil Code.
7. no opinions were issued pursuant to the law.
8. During the year, the Company, in compliance with the laws, assigned KPMG S.p.A. the additional task, besides statutory auditing, of assessing and issuing an opinion on the distribution of an interim dividend, pursuant to art. 2433-bis of the Civil Code.
9. There are no reports of tasks assigned to subjects that are part of the “network” of the Audit Firm KPMG S.p.A.
10. During the year, seven meetings of the Board of Directors were held, two of the Audit Committee and five of the Board of Auditors.
The Compensation Committee met twice during 2011.
11. The Parent Company Financial Statements and the Consolidated Financial Statements are prepared in accordance with the international accounting standards (IFRS) issued by the International Accounting Standard Board (IASB) and approved by the European Union, and in accordance with the provisions issued in implementation of art. 9 of Legislative Decree no. 38/2005.

All the above being stated, the Board of Auditors declares, to the extent of its responsibilities, that there are no reasons for impeding the approval of the financial statements as at 31 December 2011, and that there are no observations on the proposal to allocate profit for the year, including the proposal for dividend distribution held in the Directors’ Report on Operations to the IAS/IFRS separate financial statements of Cairo Communication S.p.A. prepared by the Board of Directors.

Milano, 3 April 2012

Statutory Auditors

Marco Moroni (Chairman)

Marco Giuliani

Maria Pia Maspes

The following page provides a list of the positions of administration and supervision held by the members of the Board of Auditors in other companies as at the issue date of the Report (Annex pursuant to art. 144 quinquiesdecies of the Issuers' Regulations).

**ANNEX TO THE REPORT OF THE BOARD OF AUDITORS OF CAIRO COMMUNICATION SPA
DRAWN UP PURSUANT TO ART. 153 OF LEGISLATIVE DECREE 58/98**

**List of positions held in Companies as per Book V, Title V, Chapters V, VI and VII of the Civil Code,
as at the issue date of the Report
(art. 144-quinquiesdecies Consob Regulations 11971/99)**

N.	Company Name	Position	Until approval of the financial statements
Dott. Marco Moroni (Chairman of the Board of Auditors)			
1	Aerotecnica Star Spa	Statutory Auditor	31/12/2013
2	Aston & Cooper Srl	Statutory Auditor	31/12/2013
3	Betfair Italia Srl	Statutory Auditor	31/12/2012
4	Cairo Communication Spa	Chairman of the Board of Auditors	31/12/2013
5	Cairo Editore Spa	Chairman of the Board of Auditors	31/12/2013
6	Cairo Pubblicità'	Chairman of the Board of Auditors	31/12/2012
7	Dataprocess Holding Spa	Statutory Auditor	31/12/2013
8	Elettrodelta S.P.A. in liquidation	Statutory Auditor	31/12/2011
9	Locauto Rent Spa	Statutory Auditor	31/12/2012
10	Locauto Spa	Statutory Auditor	31/12/2012
11	Publicitas International Spa	Statutory Auditor	31/12/2012
12	Revicom Srl	Chairman of the Board	Until revocation
13	Sony Music Entertainment Italy Spa	Statutory Auditor	31/12/2013
14	Tec Italia Srl	Chairman of the Board of Auditors	31/03/2013
15	Ut Communications Spa	Chairman of the Board of Auditors	31/12/2013
Number of positions held in issuing companies			1
Total number of positions held			15

N.	Company Name	Position	Until approval of the financial statements
Dott.ssa Maria Pia Maspes (Statutory Auditor)			
1	Cairo Pubblicità Spa	Statutory Auditor	31/12/2012
2	Caminetti Montegrappa Srl	Chairman of the Board of Auditors	31/12/2012
3	G.B.H. Spa	Statutory Auditor	31/12/2012
4	Cairo Communication Spa	Statutory Auditor	31/12/2013
5	Cairo Editore Spa	Statutory Auditor	31/12/2013
6	Ut Communications Spa	Statutory Auditor	31/12/2013
7	Alto Partners SGR Spa	Statutory Auditor	31/12/2012
8	Italholding Spa	Statutory Auditor	31/12/2012
9	Immobiliare Andronica Spa	Statutory Auditor	31/12/2011
10	Torino Fc Spa	Statutory Auditor	31/12/2013
11	Eurofly Services	Statutory Auditor	31/12/2013
12	CRE – Centro ricerche ecologiche	Statutory Auditor	31/12/2012
Number of positions held in issuing companies			1
total number of positions held			12

N.	Company Name	Position	Until approval of the financial statements
Dott. Marco Giuliani (Statutory Auditor)			
1	Banca Mediolanum Spa	Statutory Auditor	31/12/2011
2	Rothschild Italia Spa	Statutory Auditor	31/03/2013
3	Marsh Spa	Statutory Auditor	31/12/2011
4	Cairo Communication Spa	Statutory Auditor	31/12/2011
5	Orient –Express Hotels Italia Srl	Chairman of the Board of Auditors	31/12/2011
6	Yara Italia Spa	Statutory Auditor	31/12/2011
7	Banca Esperia Spa	Statutory Auditor	31/12/2011
8	Ali Spa	Statutory Auditor	31/08/2012
9	Mediolanum GESTIONI Fondi Spa	Statutory Auditor	31/12/2012
10	Hotel Cipriani Srl	Chairman of the Board of Auditors	31/12/2013

Number of positions held in issuing companies

1

Total number of positions held

10



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(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Cairo Communication S.p.A.

- 1 We have audited the consolidated financial statements of the Cairo Communication Group as at and for the year ended 31 December 2011, comprising the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated equity, consolidated statement of cash flows and notes thereto. The parent's directors are responsible for the preparation of these financial statements 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. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report of other auditors dated 4 April 2011 for their opinion on the prior year consolidated financial statements, which included the corresponding figures presented for comparative purposes.

- 3 In our opinion, the consolidated financial statements of the Cairo Communication Group as at and for the year ended 31 December 2011 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of the Cairo Communication Group as at 31 December 2011, the results of its operations and its cash flows for the year then ended.

- 4 The directors of Cairo Communication S.p.A. are responsible for the preparation of a directors' report on the financial statements in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report and its specific section on corporate governance and ownership structure, to the extent of the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the specific section of such report are consistent with the consolidated financial statements of the Cairo Communication Group as at and for the year ended 31 December 2011.

Milan, 3 April 2012

KPMG S.p.A.

(signed on the original)

Francesco Spadaro
Director



CAIROCOMMUNICATION

Cairo Communication S.p.A.
Separate Financial Statements at 31 December 2011



Income statement for the year ended 31 December 2011

Euro

		2011	2010
Revenue	1	140,487,266	137,472,305
Other revenue and income	2	260,844	528,493
Non-recurring income from Cairo-Telepiù arbitration	2	0	9,944,302
Services	3	(126,176,301)	(128,587,898)
Use of third party assets	3	(638,184)	(627,532)
Personnel expense	4	(2,773,199)	(2,468,951)
Amortization, depreciation, provisions and impairment losses	5	(218,226)	(221,842)
Other operating costs	3	(310,347)	(255,923)
Operating profit		10,631,853	15,782,954
Net financial income	6	951,918	236,767
Income from investments	7	11,673,787	7,462,017
Pre-tax profit		23,257,558	23,481,738
Income tax	8	(3,989,989)	(5,515,766)
Profit from continuing operations		19,267,569	17,965,972
Loss from discontinued operations	9	(9,997)	(67,459)
Profit for the year		19,257,572	17,898,513

Statement of comprehensive income for the year ended 31 December 2011

		2011	2010
Profit for the year		19,257,572	17,898,513
Loss on measurement of available-for-sale financial assets	12	(7,650)	(1,774,800)
Total comprehensive income for the year		19,249,922	16,123,713



Statement of financial position

Euro				
Assets			31 December 2011	31 December 2010
Property, plant and equipment	10		375,508	351,258
Intangible assets	11		124,066	151,717
Investments	12		15,168,926	15,941,310
Receivables from subsidiaries	13		386,457	386,457
Other non-current financial assets	13		12,420	12,420
Deferred tax assets	14		805,773	905,363
Total non-current assets			16,873,150	17,748,525
Trade receivables	15		1,563,959	1,656,058
Receivables from parents	24		1,336,407	61,355
Receivables from subsidiaries	16		78,116,823	85,590,005
Other receivables and other current assets	17		2,286,229	8,947,842
Securities and other current financial assets	18		0	78,543
Cash and cash equivalents	19		37,475,789	32,663,459
Total current assets			120,779,207	128,997,262
Total assets			137,652,357	146,745,787
Equity and liabilities			31 December 2011	31 December 2010
Share capital	20		4,073,857	4,073,857
Share premium reserve	20		48,287,813	49,782,318
Retained earnings	20		494,693	521,695
Other reserves	20		1,056,508	1,056,509
Treasury shares	20		(1,131,942)	(2,351,293)
Interim dividend	20		(11,695,811)	0
Profit for the year	20		19,257,572	17,898,512
Total equity			60,342,690	70,981,598
Post - employment benefits	21		760,918	667,996
Provisions for risks and charges	22		149,178	169,181
Total non-current liabilities			910,096	837,177
Trade payables	23		69,711,657	58,049,893
Payables to parents	24		0	2,781,404
Payables to subsidiaries	25		2,085,621	10,400,616
Tax liabilities	26		212,308	615,551
Other current liabilities	27		4,389,985	3,079,548
Total current liabilities			76,399,571	74,927,012
Total liabilities			77,309,667	75,764,189
Total equity and liabilities			137,652,357	146,745,787



Statement of cash flows

€ thousands

	2011	2010
CASH AND CASH EQUIVALENTS	32,663	17,832
OPERATING ACTIVITIES		
Profit for the year	19,258	17,899
- non-recurring	0	6,822
Amortization/depreciation	218	222
Impairment losses on investments	765	0
Net financial income	(13,391)	(7,699)
Income tax	3,990	5,516
- non-recurring	0	3,122
Change in post-employment benefits	93	73
Change in provisions for risks and charges	(20)	51
Cash flow from operating activities before changes in working capital	10,913	16,061
(Increase) decrease in trade and other assets	14,227	(1,860)
- non-recurring	0	(5,941)
Increase (decrease) in trade and other liabilities	3,200	5,766
(Increase) decrease in other assets	79	0
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	28,419	19,968
Income tax paid	(8,350)	(4,816)
Financial expense paid	(57)	(78)
TOTAL NET CASH FROM OPERATING ACTIVITIES (A)	20,012	15,074
INVESTING ACTIVITIES		
Acquisition of PPE and intangible assets	(215)	(68)
Interest and financial income received	1,009	315
Dividends received	12,439	7,462
Net increase in other non-current assets	0	21
NET CASH FROM INVESTING ACTIVITIES (B)	13,234	7,730
FINANCING ACTIVITIES		
Decrease (Increase) in term bank deposits	-	7,543
- non-recurring	-	7,543
(Acquisition) disposal of treasury shares	1,200	-
Dividends paid	(29,633)	(15,515)
NET CASH USED IN FINANCING ACTIVITIES (C)	(28,433)	(7,972)
NET CASH FLOW OF THE YEAR (A)+(B)+(C)	4,812	14,831
CLOSING CASH AND CASH EQUIVALENTS	37,476	32,663



Statement of changes in equity

€ thousands

	Share capital	Share premium reserve	Earnings	Other reserves	Treasury shares	Reserve for available-for-sale financial assets	Interim dividend	Profit for the year	Equity
€ thousands									
Balance as at 31 December 2008	4,074	56,965	5,540	1,057	(3,193)	0	0	9,499	73,942
Allocation of profit			9,499					(9,499)	0
Dividend distribution shareholders' meeting approval of financial statements at 31/12/2008		(3,608)	(11,844)						(15,452)
Movements in treasury shares			(471)		842				371
Gains/(Losses) from available-for-sale financial assets						(428)			(428)
Profit for the year								11,940	11,940
Balance as at 31 December 2009	4,074	53,357	2,724	1,057	(2,351)	(428)	0	11,940	70,373
Allocation of profit			11,940					(11,940)	0
Dividend distribution shareholders' meeting approval of financial statements at 31/12/2009		(3,575)	(11,940)						(15,515)
Losses on available-for-sale financial assets						(1,775)			(1,775)
Profit for the year								17,899	17,899
Balance as at 31 December 2010	4,074	49,782	2,724	1,057	(2,351)	(2,203)	0	17,899	70,982
Allocation of profit			17,899					(17,899)	0
Dividend distribution shareholders' meeting approval of financial statements at 31/12/2010		(1,494)	(17,899)						(19,393)
Movements in treasury shares			(19)		1,219				1,200
Reclassification reserve for available-for-sale financial assets			(2,211)			2,211			0
Losses on available-for-sale financial assets						(8)			(8)
Interim dividends 2011							(11,696)		(11,696)
Profit for the year								19,258	19,258
Balance as at 31 December 2011	4,074	48,288	494	1,057	(1,132)	0	(11,696)	19,258	60,343



Income statement pursuant to Consob Resolution n. 15519 of 27 July 2006

	2011	Related parties	% of total	2010	Related parties	% of total
Euro		(*)				
Revenue	140,487,266	140,447,287	100,0%	137,472,305	137,452,409	100,0%
Other revenue and income	260,844			528,493		
Non-recurring income from Cairo-Telepiù arbitration	0			9,944,302		
Services	(126,176,301)	(113,324)	0,1%	(128,587,898)	(26,609,769)	20,7%
Use of third party assets	(638,184)			(627,532)		
Personnel expense	(2,773,199)			(2,468,951)		
Amortization, depreciation, provisions and impairment losses	(218,226)	(47,299)	21,7%	(221,842)	(47,229)	21,3%
Other operating costs	(310,347)			(255,923)		
Operating profit	10,631,853			15,782,954		5,599,361
Net financial income	951,918	2,784	0,3%	236,767	18,001	7,6%
Income from investments	11,673,787	11,673,787	100,0%	7,462,017	7,462,017	100,0%
Pre-tax profit	23,257,558			23,481,738		13,867,019
Income tax	(3,989,989)			(5,515,766)		
Profit from continuing operations	19,267,569			17,965,972		10,439,892
Loss from discontinued operations	(9,997)	(9,997)	100,0%	(67,459)	(67,459)	100,0%
Profit for the year	19,257,572			17,898,513		11,419,892

(*) Related party transactions are analyzed in Note 29

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

Euro Assets	31 December 2011	Related parties (*)	% of total	31 December 2010	Related parties (*)	% of total
Property, plant and equipment	375,508	36,906	9,8%	351,258	49,124	14,0%
Intangible assets	124,066	8,000	6,4%	151,717	16,000	10,5%
Investments	15,168,926	15,168,926	100,0%	15,941,310	13,707,510	86,0%
Receivables from subsidiaries	386,457	386,457	100,0%	386,457	386,457	100,0%
Other non-current financial assets	12,420			12,420		
Deferred tax assets	805,773			905,363		
Total non-current assets	16,873,150			17,748,525		
Trade receivables	1,563,959	239,300	15,3%	1,656,058	103,800	6,3%
Receivables from parents	1,336,407	1,336,407	100,0%	61,355	61,355	100,0%
Receivables from subsidiaries	78,116,823	78,116,823	100,0%	85,590,005	85,590,005	100,0%
Other receivables and other current assets	2,286,229			8,947,842		
Securities and other current financial assets	-			78,543		
Cash and cash equivalents	37,475,789			32,663,459		
Total current assets	120,779,207			128,997,262		
Total assets	137,652,357			146,745,787		
Equity and liabilities	31 December 2011			31 December 2010		
Share capital	4,073,857			4,073,857		
Share premium reserve	48,287,813			49,782,318		
Retained earnings	494,693			521,695		
Other reserves	1,056,508			1,056,509		
Treasury shares	(1,131,942)			(2,351,293)		
Interim dividend	(11,695,811)					
Profit for the year	19,257,572			17,898,512		
Total equity	60,342,690			70,981,598		
Post - employment benefits	760,918			667,996		
Provisions for risks and charges	149,178	149,178	100,0%	169,181	169,181	100,0%
Total non-current liabilities	910,096			837,177		
Trade payables	69,711,657	16,533	0,0%	58,049,893		
Payables to parents	-	-		2,781,404	2,781,404	100,0%
Payables to subsidiaries	2,085,621	2,085,621	100,0%	10,400,616	10,400,616	100,0%
Tax liabilities	212,308			615,551		
Other current liabilities	4,389,985	1,455,750	33,2%	3,079,548		
Total current liabilities	76,399,571			74,927,012		
Total liabilities	77,309,667			75,764,189		
Total equity and liabilities	137,652,357			146,745,787		

(*) Related party transactions are analyzed in Note 29

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

€ thousands	2011	related parties	2010	related parties
CASH AND CASH EQUIVALENTS	32,663		17,832	
OPERATING ACTIVITIES				
Profit for the year	19,258	151,953	17,899	118,207
Amortization/ depreciation	218	47	222	47
Impairment losses on investments	765	765	0	
Net financial income	(13,391)	(12,442)	(7,699)	(7,480)
Income tax	3,990		5,516	
Change in post-employment benefits	93		73	
Change in provisions for risks and charges	(20)	(20)	51	51
Cash flow from operating activities before changes in working capital	10,913	140,303	16,061	110,825
(Increase) decrease in trade and other assets	14,227	6,063	(1,860)	2,589
Increase (decrease) in trade and other liabilities	3,200	(9,624)	5,766	1,836
(Increase) decrease in other assets	79		0	
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	28,419	136,742	19,968	115,250
Income tax paid	(8,350)		(4,816)	
Financial expense paid	(57)		(78)	
TOTAL NET CASH FROM OPERATING ACTIVITIES (A)	20,012	136,742	15,074	115,250
INVESTING ACTIVITIES				
Acquisition of PPE and intangible assets	(215)		(68)	
Interest and financial income received	1,009		315	
Dividends received	12,439	12,439	7,462	7,462
Net increase in other non-current assets	0		21	
NET CASH FROM INVESTING ACTIVITIES (B)	13,233	12,439	7,730	7,462
FINANCING ACTIVITIES				
Decrease (Increase) in term bank deposits	0		7,543	
(Acquisition) disposal of treasury shares	1,200		0	
Dividends paid	(29,633)		(15,515)	
NET CASH USED IN FINANCING ACTIVITIES (C)	(28,433)	0	(7,972)	0
	0		0	
CASH FLOW OF THE YEAR (A)+(B)+(C)	4,812	149,180	14,831	122,712
CLOSING CASH AND CASH EQUIVALENTS	37,476		32,663	

NOTES TO THE SEPARATE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2011

Main activities

Cairo Communication S.p.A. is a joint-stock company enrolled with the Milan Company Register. The Cairo Communication Group operates as a publisher of magazines and books (Cairo Editore - and its division Editoriale Giorgio Mondadori – and Cairo Publishing), as a multimedia advertising broker selling advertising time and space on television, in print media and in stadiums (Cairo Communication and Cairo Pubblicità) and as an operator of Internet sites (Il Trovatore).

Its registered offices are at 56 Via Tucidide, Milan, Italy, home also to the company administrative offices, advertising brokerage services and Il Trovatore. The publishing business is located at Cairo Editore, at 55 Corso Magenta, Milan.

Figures are shown in thousands of Euro.

The separate financial statements of Cairo Communication S.p.A. are prepared in euro (€), the currency of the economy in which the company operates.

The income statement and the statement of financial position are presented in euro, whilst 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 2011.

Basis of preparation

Structure, form and content of the financial statements

The separate financial statements of Cairo Communication S.p.A. at 31 December 2011 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 pursuant to art. 2427, paragraph 5 of the Italian Civil Code;
- Annex 2 and 3: Summary figures of the draft financial statements of subsidiaries at 31 December 2011;

- Annex 4 and 5: Summary figures of the most recently approved financial statements of subsidiaries.

The main accounting policies adopted are unchanged from those used for the previous year, and are detailed below.

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

The **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),
- 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 policies.

The **statement of financial position** presents separately assets and liabilities broken down into 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 principally to be traded;
- it is expected to be realized or settled within 12 months of the reporting date.

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

The **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 financial 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 variations in equity relating to:

- allocation of profit for the year;
 - amounts relating to transactions with owners (purchase and sale of treasury shares);
- and separately income and expense defined as “*changes arising from transactions with non-owners*”, also shown in the 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 statement of comprehensive income and statement 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 on the probability with which the company will enjoy the economic benefits and in the extent to which the amount can be reliably determined. Revenue is stated net of any adjustments.
- Advertising revenue is recognized at the moment the advertisement is broadcast or published or provision of services offered.
- Cost is recognized using the same criteria for revenue recognition and on an accruals basis.
- Interest income and expense payable are recognized and on an accruals basis.
- Dividends are recognized only as from when the shareholders’ right to the dividend payment has been established, 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.
- The recharges of costs incurred on behalf of third parties are recognized as a reduction in the cost to which they relate.

Taxes

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

Current taxes are based upon taxable income for the year. Taxable income differs from the results shown in the income statement because it excludes positive and negative items that will be taxable or deductible in other periods and because it excludes tax free or tax deductible items.

Cairo Communication and its subsidiaries Cairo Editore S.p.A., Cairo Pubblicità S.p.A., Diellesei S.r.l. in liquidation, Cairo Due S.r.l. and Cairo Publishing S.r.l. have adhered to the national tax consolidation scheme of UT Communications S.p.A. pursuant to art.117/129 of the Consolidated Income Tax Act (TUIR).

The consolidation scheme, which regulates economic aspects pertaining to the sums deposited or calculated against the advantages or disadvantages arising from the national tax consolidation scheme, also allows for any increased costs or decreased benefits incurred by the Companies, by adhering to this procedure, to be repaid by the Parent U.T. Communications S.p.A.

UT Communications S.p.A. acts as the tax parent and determines a single taxable base for the group of companies that adheres to 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 adheres to the national tax consolidation scheme transfers its taxable profit and loss to the tax parent. For any such taxable profit reported by a subsidiary, UT Communications S.p.A. recognize a receivable equal to the IRES payable. Conversely, for any such taxable loss, reported by a subsidiary, UT Communications recognize a payable equal to IRES due on the loss that has been contractually transferred at Group level.

Deferred tax liabilities are generally recognized for all taxable temporary differences, while deferred tax assets are recognized to the extent of the probability that there will be future taxable profits which will allow for the utilization of the deductible temporary differences. Deferred taxes are calculated on the basis of the tax rates that are foreseen will be in force at the moment of realization of the asset or 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 reported at their net value when there is a legal right to offset current tax liabilities and assets and when the taxes relate to the same taxation authority.

Post-employment benefits

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 Company has less than 50 employees. Only a few managers have opted for the Mario Negri Fund.

Non-current assets

Intangible assets

Costs, including accessory costs incurred for the acquisition of resources with no physical substance are recognized among 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 related costs – to the extent to which they are considered to have a finite life – and they are amortized to reflect their remaining useful economic lives.

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

Concessions, licenses, trademarks and similar rights	From 3 to 5 years
Software	From 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.

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 expenses and costs, plus the share of indirect costs which can 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%
General equipment	20%
Motor vehicles	20%-25%
Plant and machinery	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 lives and the depreciation criteria applied are reviewed on a regular basis and where change is deemed necessary, the depreciation rate is restated in accordance with the “prospective” method.

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

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

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

Impairment of assets

At least once a year, the company reviews the recoverability of the carrying amount of its intangible assets with an indefinite useful life, and of its investments and whenever there are potential indicators of an impairment loss on PPE and intangible assets with a finite useful life, in order to determine whether such assets may have suffered an impairment loss. When such indications are present, the carrying amount of the asset is reduced to reflect recoverable amount. The recoverable amount of an asset is the greater of its fair value less costs to sell, and its value in use. The fair value of a listed investment is determined according to its market price. In the absence of market values, or when the market value is not considered to represent the effective value of the investment, estimates and valuation methods are applied based on data which is in any case evident on the market.

To determine an asset’s value in use, the Company calculates the present value of future estimated cash flows, inclusive of tax, by applying a pre-tax discount rate which reflects the current market valuation of the time value of money and the specific risks inherent to the asset.

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

Investments

Subsidiaries and associates

Investments in subsidiaries and associates are recognized at purchase or subscription cost and adjusted for any impairment loss.

Any excess in value between the purchase price at the time of acquisition and the company's share of equity at current values is therefore included in the carrying amount of the investment.

Investments in subsidiaries and associates are subject to impairment testing at least once a year, or more frequently if deemed necessary. Whenever there is evidence that such investments have incurred an impairment loss, the impairment loss is recognized in profit and loss. 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 cease to exist, the loss is reversed up to the original carrying amount through profit and loss.

Other investments (available for sale)

Other investments are measured at fair value at each year end.

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

Receivables from subsidiaries and associates

Non-interest bearing loans granted to subsidiaries and associates are recognized as non-current financial assets.

Current assets and liabilities

Receivables

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

Financial assets

They are recognized and derecognized on the basis of their trading date. They are initially measured at cost, including all direct expenses associated with their acquisition. At the subsequent reporting dates, the financial assets that the Company has the intention and the ability to hold to maturity (held-to-maturity investments) are recognized at amortized cost, net of any impairment losses.

Investments other than those held to maturity are classified as held for trading or available for sale and are measured at the end of each reporting period at their fair value. When financial assets are held for trading, gains and losses arising from fair value changes are recognized in profit and loss. In the case of available-for-sale financial assets, gains and losses arising from fair value changes are taken directly to equity until they are sold or are impaired. In this case the gains or losses previously taken to equity are recognized to profit and loss.

Valuations are regularly carried out to check whether there is any objective evidence that an investment, whether taken individually or as a group of investments, may have suffered an

impairment loss. In the existence of such evidence, impairment losses are recognized in profit and loss.

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.

Borrowings, bank loans and overdrafts

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

Trade payables

These are recognized at their nominal amount.

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.

Treasury shares

Treasury shares are recognised as a reduction in equity. The effects of any subsequent transactions are also recognized directly in equity.

Dividends paid

Dividends payable are recorded as a movement in equity in the year they are approved by the Shareholders' Meeting or by the Board of Directors in the event of interim dividend.

Use of estimates

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

relating to receivables, investment measurement, 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 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 allowance for impairment, inventory write-downs, non-current assets (intangible assets, property, plant and equipment and investments), post-employment benefits and deferred tax assets.

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 amount 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 period.

Allowance for impairment

The allowance for impairment reflects Management's estimate regarding the losses on 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 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 a further deterioration of the financial conditions of Company debtors compared to the 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 different 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.

Recoverable amount of non-current assets

Non-current assets include investments, property, plant and equipment, intangible assets, deferred tax assets and other financial assets. Management periodically reviews the carrying amount of the non-current assets held and used, and those of assets held for sale, as and when circumstances require such revision. This is performed using the estimated cash flows expected from the use or sale of the asset and suitable discount rates to calculate present value. In the absence of market values or should the Stock Market price not be considered representative of the real value of the investment, estimates and valuation models are used based on data available on the market. When the carrying amount of a non-current asset has suffered an impairment loss, the Company recognizes an impairment loss equal to the positive difference between the greater of the carrying amount of the asset and its recoverable amount from its use or sale, as determined according to the Company's most recent plans.

For the preparation of the financial statements at 31 December 2011, and in particular in the performance of impairment tests on intangible and assets and property, plant and equipment, the different sectors of the Cairo Communication Group have taken into account the expected 2012 performance, whose assumptions and results are in line with that disclosed in the section on "*events after the reporting period*". In addition, for the subsequent years of the plan, necessary adjustments have been cautiously made to take account of the deep market changes resulting from the current economic and financial crisis. No significant impairment was required based on such figures in the plan.

Provisions for risks and charges

The provisions for 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 counsels and fiscal advisors on the probable charge that can be reasonably expected to fulfill the obligation.

Risk management

The main fiscal, legal and financial risks to which Cairo Communication S.p.A. is exposed, as well as the policies put in place by Management for their management are explained in notes 28 and 30. Reference is made to the Directors' Report regarding operational and business risks.

Accounting standards, amendments and interpretations applied from 1 January 2011

The following accounting standards, amendments and interpretations were applied for the first time by Cairo Communication starting from 1 January 2011:

- On 4 November 2009, the IASB issued a revised version of IAS 24 – *Related party disclosures*, which simplifies disclosure requirements for transactions with government related entities and clarifies the definition of related parties. Specifically, the definition of related parties also includes companies controlled by parties on which the reporting entity exercises, either directly or indirectly, significant influence. It also removes the asymmetry of disclosures in the financial statements of related parties, makes equal the position of persons and companies for the purposes of determining related party relationships and requires disclosure also on commitments received and granted to related parties. The amendments introduced with the revision are applicable from annual periods beginning on or after 1 January 2011. The adoption of the amendment produced no effect in terms of measurement of financial statements items and/or on the disclosure of related party transactions provided in the separate financial statements at 31 December 2011.
- On 6 May 2010, the IASB issued a series of improvements to the IFRS applicable as from 1 January 2011; the following are those indicated by IASB as variations involving changes in the presentation, recognition and measurement of financial statements items, omitting those that will involve mere changes in terminology or editorial changes with a minimum accounting effect, or those that affect standards or interpretations that are not applied by Cairo Communication:
 - IFRS 7 - *Financial instruments: disclosures*: the improvement emphasizes interaction between qualitative and quantitative disclosures required by the standard regarding the nature and extent of risks arising from financial instruments. This should help users of financial statements to evaluate an entity's exposure to risks to financial instruments. Disclosure has been deleted for financial assets past due which have been renegotiated or impaired and for information regarding the fair value of collateral.
 - IAS 1 - *Presentation of financial statements*: the improvement requires an entity to provide a reconciliation of changes in each component of equity in the notes to the financial statements or in the financial statements.

The following amendments, improvements and interpretations, effective as from 1 January 2011, govern circumstances that are alien to the Cairo Communication Group at the date of the separate financial statements, but could have accounting effects on future transactions or agreements:

- Amendment to IAS 32 - *Financial instruments: Presentation* issued on 8 October 2009 and applicable retrospectively as from 1 January 2011;
- IFRIC 14 – *Prepayments of a minimum funding requirement*, issued on 26 November 2009 and applicable as from 1 January 2011;
- IFRIC 19 – *Extinguishing financial liabilities with equity instruments*, issued on 26 November 2009 and applicable as from 1 January 2011;
- Amendment to IFRS 1 and IFRS 7 - *Financial Instruments: additional disclosures*. Limited exemption from comparative IFRS 7 disclosure for first-time adopters, amendments to IFRS 1 and IFRS 7.

Accounting standards, amendments and interpretations yet to apply and not adopted early by Cairo Communication

On 7 October 2010, the IASB issued several amendments to IFRS 7 – *Financial instruments: improved disclosures*, to be applied for annual periods starting from or after 1 July 2011. The amendments were issued to improve the understanding of transfers of financial assets and the possible effects arising from risks associated with the continuing involvement of the entity that has transferred such assets. The amendments require further information in the event a disproportionate amount of transfer transactions is undertaken around the end of the year.

Moreover, at the date of these separate financial statements, the relevant EU bodies have yet to complete the endorsement process for application of the amendments and standards listed below:

- On 12 November 2009, the IASB issued IFRS 9 – *Financial instruments: recognition and measurement of financial assets* applicable as from 1 January 2013, amended on 28 October 2010. The publication is the opening part of a process that aims to overhaul IAS 39. The new standard uses a single approach and is based on how a company manages its financial instruments and the contractual cash flows of the financial assets to determine the measurement methodology replacing IAS 39. For financial liabilities, instead, the main change made regards accounting of fair value changes of a financial liability designated as financial liability measured at fair value through profit and loss, in the event these are attributable to changes in the credit risk of the liability. Based on this new standard, changes must be presented in other comprehensive income and expenses and no longer in the income statement.

On 20 December 2010, the IASB issued:

- a narrow amendment to IFRS 1 – *First-time adoption of International Financial Reporting Standards (IFRS)* to cancel reference to the date of 1 January 2004 it contained and described as the date of transition to IFRS, and to provide guidance on the presentation of the financial statements in compliance with IFRS following a period of severe hyperinflation. These amendments will be applicable as from 1 July 2011;
- a narrow amendment to IAS 12 – *Income tax* addressing the issue of measuring deferred tax as arising from continuing operations depending on whether the company expects to recover the carrying amount of the asset through use or sale. As a result of the amendment, SIC-21 – *Income taxes – Recovery of Revalued Non-Depreciable Assets* will no longer be applicable. The amendment is applicable as from 1 January 2012.
- On 12 May 2011, the IASB issued IFRS 10 – *Consolidated Financial Statements*, which will replace SIC 12 - *Consolidation - Special Purpose Entities* and parts of IAS 27 - *Consolidated and Separate Financial Statements*, which will be renamed *Separate Financial Statements* and will regulate the accounting treatment of equity investments in separate financial statements. The new standard builds on existing standards, identifying the concept of control as the decisive factor for the purposes of consolidation of a company in the consolidated financial statements of the parent. It also provides guidance to determine the existence of control when this is difficult to ascertain. The standard is retrospectively applicable as from 1 January 2013.
- On 12 May 2011, the IASB issued IFRS 11 – *Joint Arrangements*, which will replace IAS 31 – *Interests in Joint Ventures* and SIC 13 – *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. The new standard provides criteria for the identification of joint arrangements based on the rights and obligations arising from such arrangements rather than on their legal form, and establishes the equity method as the sole method of accounting for joint ventures in consolidated financial statements. The standard is retrospectively applicable as from 1 January 2013. Following issue of the standard, IAS 28 – *Investments in Associates* has been amended to comprise, within its scope of application, from the date it comes into effect, also investments in joint ventures.
- On 12 May 2011, the IASB issued IFRS 12 – *Disclosure of Interests in Other Entities*, a new standard which specifically envisages the disclosure to be provided on all types of interests, including those in subsidiaries, joint arrangements, associates, special purpose entities and other unconsolidated special purpose vehicles. The standard is retrospectively applicable as from 1 January 2013.

- On 12 May 2011, the IASB issued IFRS 13 – *Fair Value Measurement*, which clarifies how to calculate fair value for the purposes of financial reporting and is applicable to all IFRS that require or allow fair value measurement or disclosures based on fair value. The standard is prospectively applicable as from 1 January 2013.
- On 16 June 2011, the IASB issued an amendment to IAS 1 – *Presentation of Financial Statements* requiring entities to group items presented in OCI (Other Comprehensive Income) based on whether they are potentially re-classifiable subsequently to profit and loss. The amendment is applicable to annual periods beginning on or after 1 July 2012.
- On 16 June 2011, the IASB issued an amendment to IAS 19 – *Employee Benefits* that eliminates the option of deferring recognition of actuarial gains and losses via the corridor approach, requiring presentation, in the statement of financial position, of the fund’s deficit or surplus and recognition in the profit and loss of cost components relating to service and net financial expense, and recognition of actuarial gains and losses stemming from re-measurement of liabilities and assets among other comprehensive income (expense). In addition, the return on assets included in net financial expense must be calculated on the basis of the discount rate for liabilities and no longer on the basis of the rate of return expected for assets. Lastly the amendment introduces new disclosures to be provided in the notes to financial statements. The amendment is retrospectively applicable to annual periods beginning on or after 1 January 2013.
- On 16 December 2011, the IASB issued amendments to IAS 32 – *Financial Instruments: Presentation*, to clarify the application of certain criteria for offsetting financial assets against financial liabilities included in IAS 32. The amendments are retrospectively applicable to annual periods beginning on or after 1^o January 2014.
- On 16 December 2011, the IASB issued amendments to IFRS 7 – *Financial Instruments: Disclosures*. The amendment requires disclosures about the effect or potential effect of offsetting of financial assets against financial liabilities on an entity’s financial position. The amendments are applicable to the annual periods beginning on or after 1 January 2013 and to interim periods following such date. Disclosure is to be provided retrospectively.

The following amendments and interpretations, not yet applicable, are deemed irrelevant for the Company as they govern circumstances that do not appear at the reporting date:

- IFRIC 20 - *Stripping costs in the production phase of a surface mine*.

NOTES TO THE INCOME STATEMENT

1. Revenue

Revenue was Euro 140,487 thousand (Euro 137,472 thousand in 2010). Its composition, versus 2010, is shown below:

Revenue (€ thousands)	2011	2010
Print media advertising space sales	39	45
Cairo Pubblicità TV sub-concession	134,867	104,638
Cairo Pubblicità print media sub-concession	1,023	28,381
Cairo Pubblicità Web sub-concession	956	819
Group services	3,502	3,502
Other revenue from associates	100	87
Gross revenue	140,487	137,472

Revenue is realized exclusively in Italy and an analysis by geographical area is pointless.

In 2011, 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.

Starting from January 2011, Cairo Pubblicità has entered directly with Cairo Editore into an exclusive advertising concession contract on its publications. Until December 2010, print media advertising sales had been governed by a sub-concession agreement.

The drop in revenue of Cairo Communication from print media is attributable to this new contractual framework, which was however more than offset by the surge in TV advertising revenue, as illustrated in the Directors' Report.

Specifically, advertising revenue on LA7, amounting to approximately Euro 167.5 million, was up 32.5% on 2010 and greatly exceeded the minimum revenue 12-month contractual target (Euro 120 million), and the additional revenue target related to the share increase of the channel achieved by TIMedia with respect to the 3% share.

In 2011, operating revenue included the sub-concession fees billed to the subsidiary Cairo Pubblicità S.p.A.:

- for TV advertising sales, amounting to Euro 134,867 thousand,
- print media advertising sales, on “Prima Comunicazione” and “Uomini e comunicazione” of Editoriale Genesis Srl, amounting to Euro 1,023 thousand,
- Internet advertising sales, amounting to Euro 956 thousand.

Apart from providing advertising services, Cairo Communication also provides services in administration, auditing, financial analysis, debt management and collection and marketing, to other Group companies. 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)	2011	2010
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) relate to administrative services provided to Torino FC S.p.A., a related party in that it is ultimately controlled by UT Communications S.p.A.

2. Other revenue and income and non-recurring income from Cairo-Telepiù arbitration

Other revenue and income

Other revenue and income were Euro 261 thousand (Euro 528 thousand in 2010) and can be analyzed as follows:

Other revenue and income (€ thousands)	2011	2010
Other revenue	115	1
Prior year income	146	527
Total	261	528

Non-recurring income from Cairo-Telepiù arbitration

In the schedules of the income statement of 2010, income arising from the Cairo-Telepiù arbitration pending from 2004 between Cairo and Telepiù, amounting to Euro 9,944 thousand, had been shown separately owing to its non-recurring nature, as illustrated in the 2010 annual financial report.

3. Services, use of third party assets and other operating costs

Costs for services were Euro 126,176 thousand (Euro 128,588 thousand in 2010). Such costs are detailed as follows versus 2010:

Services (€ thousands)	2011	2010
Publishers' fees	1,053	27,440
TV publishing fees	120,401	97,158
Web publishing fees	847	747
Consultancies and collaborations	541	697
Cairo Communication Board of Directors' fees	1,556	1,057
Cairo Communication Board of Statutory Auditors' fees	58	58
Other administration and general expenses	1,720	1,431
Total	126,176	128,588

The decrease in "Publishers' fees" is ascribable to the new contractual framework under which, starting from January 2011, Cairo Pubblicità has entered directly with Cairo Editore into an exclusive advertising concession contract on its publications, instead of operating under a sub-concession agreement as previously.

"TV publishing fees" in 2011 increased parallel to the growth in TV advertising revenue.

Use of third party assets amounted to Euro 638 thousand (Euro 628 thousand in 2010) and refer mainly to lease payments for property and office equipment.

Other operating costs amounted to Euro 310 thousand (Euro 256 thousand in 2010) and refer to prior year expense of Euro 267 thousand and other costs of Euro 43 thousand.

4. Personnel expense

This item can be analyzed as follows:

Personnel expense (€ thousands)	2011	2010
Wages and salaries	1,945	1,728
Social security contributions	721	648
Other expense	3	2
Post-employment benefits	104	91
Total	2,773	2,469

5. Amortization, depreciation, provisions and impairment losses

These can be analyzed as follows:

Amortization, depreciation, provisions and impairment losses (€ thousands)	2011	2010
Amortization of intangible assets	80	93
Depreciation of property, plant and equipment	138	129
Total	218	222

6. Net financial income

Net financial income amounts to Euro 952 thousand (Euro 236 thousand in 2010) and is broken down as follows:

Net financial income (€ thousands)	2011	2010
Interest income on bank accounts	1,007	287
Interest income from Cairo Editore	-	16
Interest income from Cairo Publishing	3	2
Other	26	8
Total financial income	1,036	313
Interest expense and other financial expense	(84)	(77)
Total financial expense	(84)	(77)
Net financial income	952	236

The variation in financial income is mainly due to the variation in interest rates on 2010 (1.19% average 1-month Euribor in 2011 on 0.57% in 2010), to the increase in positive spreads granted by banks from reference interest rates, given also the economic climate particularly in the last quarter of the year, and to the increase in the average net financial position.

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7. Income from/(losses) on investments

This item mainly includes:

- dividends received during the year from the subsidiaries Cairo Pubblicità S.p.A. (Euro 2,273 thousand) and Cairo Editore S.p.A. (Euro 10,166 thousand).

- Euro 765 thousand, for the impairment loss on the investment in Dmail Group, as illustrated in Note 12.

At 31 December 2010, the item mainly included dividends received from the subsidiaries Cairo Pubblicità S.p.A. (Euro 713 thousand) and Cairo Editore S.p.A. (Euro 6,751 thousand).

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8. Income tax

Income tax for the year amounted to Euro 3,990 thousand. In accordance with IFRS the deferred tax assets, relating mainly to the accrual of provisions whose fiscal deductibility is deferred, were recognised.

Tax (€ thousands)	2011	2010
Current tax		
Ires	3,326	4,405
Irap	565	734
Deferred tax assets	99	377
Total	3,990	5,516

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

	2011	2010
Pre-tax profit	23,258	23,415
Theoretical income tax charge (27.5%)	6,396	6,439
Tax effect of dividends received	(3,250)	(1,950)
Tax effect of other permanent differences	279	293
Irap	565	734
Income tax for the year	3,990	5,516

For a clearer understanding of the reconciliation of effective and theoretical tax charge, IRAP has not been taken into account as this is not based on pre-tax profit, and this would generate a distorting effect between one year and the other. Therefore, the theoretical income tax charge has been calculated using the IRES rate in force at 31 December 2011, equal to 27.5%.

As the chart shows, the lower income tax in 2011 is ascribable to the sharp increase in dividends received (Euro 12.4 million versus Euro 7.5 million in 2010), 5% of which are subject to income tax.

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9. Loss from discontinued operations

This includes the allocation of Euro 10 thousand for the loss of the year incurred by the subsidiary Diellesei S.r.l. in liquidation.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

10. Property, plant and equipment

As at 31 December 2011, this item amounted to Euro 376 thousand, increasing by Euro 25 thousand on 31 December 2010. Movements can be broken down as follows:

	Historical cost	Revaluation	Accumulated depreciation	Carrying amount 31/12/2010	Net change	Carrying amount 31/12/2011
Motor vehicles	343	0	(287)	56	85	141
Plant (various)	67	0	(67)	0	0	0
Furniture and fittings	337	0	(176)	161	(12)	149
Communication equipment	70	0	(62)	8	(3)	5
Electronic office equipment	947	0	(837)	110	(38)	72
Equipment (various)	124	0	(120)	4	(1)	3
Mobile phones	19	0	(15)	4	1	5
Leasehold improvements	192	0	(184)	8	(8)	0
Total other assets	2,099	0	(1,748)	351	25	376

The net change in the year is broken down as follows:

	Additions	Disposals	Depreciation	Net change
Motor vehicles	157	(28)	(44)	85
Plant (various)	0	0	0	0
Furniture and fittings	0	0	(12)	(12)
Communication equipment	4	0	(7)	(3)
Electronic office equipment	26	0	(64)	(38)
Equipment (various)	0	0	(1)	(1)
Mobile phones	3	0	(2)	1
Leasehold improvements	0	0	(8)	(8)
Total	190	(28)	(138)	25

Property, plant and equipment have not been subject to revaluation.

The item also includes leasehold improvements depreciated over the term of the lease.

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11. Intangible assets

As at 31 December 2011, intangible assets amounted to Euro 124 thousand, decreasing by Euro 28 thousand on 31 December 2010. Movements in intangible assets during the year are as follows:

(€ thousands)	Historical cost	Accumulated depreciation	Carrying amount at 31/12/2010	Net change	Net value as at 31/12/2011
Software programs	2,320	(2,184)	136	(26)	110
Total concessions, licenses and trademarks	2,320	(2,184)	136	(26)	110
Website design costs	169	(153)	16	(8)	8
Assets under development	0	0	0	6	6
Total other	169	(153)	16	(2)	14
Total intangible assets	2,489	(2,337)	152	(28)	124

The net change in the year is broken down as follows:

(€ thousands)	Additions	Disposals	Amortization	Net change
Software	46	0	(72)	(26)
Total concessions, licenses and trademarks	46	0	(72)	(26)
Website design costs	0	0	(8)	(8)
Assets under development	6	0	0	6
Total other	6	0	(8)	(2)
Total intangible assets	52	0	(80)	(28)

Website design costs include the residual amount (Euro 8 thousand) on the costs billed in 2007 by the subsidiary Il Trovatore.

Expenses incurred for procedures and software are amortized over 3 and 5 financial years.

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12. Investments

- Investments in subsidiaries, associates and other companies

At 31 December 2011, investments amounted to Euro 15,169 thousand, decreasing by Euro 772 thousand on 31 December 2010.

(€ thousands)	Carrying amount at 31/12/2010	Reclassifications	Effects of fair value measurement	Impairment losses	Carrying amount at 31/12/2011
Diellesei S.r.l. in liquidation	0	-	-	-	0
Cairo Sport S.r.l.	10	-	-	-	10
Cairo Due S.r.l.	132	-	-	-	132
Il Trovatore S.r.l.	357	-	-	-	357
Cairo Editore S.p.A.	6,273	-	-	-	6,273
Cairo Publishing S.r.l.	1,595	-	-	-	1,595
Cairo Pubblicità S.p.A.	5,340	-	-	-	5,340
Total subsidiaries	13,707	-	-	-	13,707
Dmail Group S.p.A.	0	2,234	(8)	(765)	1,462
Total associates	0	2,234	(8)	(765)	1,462
Dmail Group S.p.A.	2,234	(2,234)	-	-	-
Total other companies	2,234	(2,234)	-	-	-
Total investments	15,941	-	(8)	(765)	15,169

Subsidiaries

In 2011, the liquidation of the subsidiary Diellesei continued, which generated a loss of Euro 10 thousand. The net deficit of the company is covered by the provision for investment risks at 31 December 2011.

Annex 2 shows the information required by paragraph V of art. 2427 of the Italian Civil Code. Information at 31 December 2011 is drawn from the draft financial statements approved by the Board of Directors of each direct and/or indirect 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.

	Equity 31/12/2011 (*)	Ownersh p%	Equity method (*) (a)	Carrying amount (b)	Difference (a-b)
Cairo Editore S.p.A.	13,656	99.95%	23,636	6,273	17,363
Cairo Due S.r.l.	86	100%	86	132	(46)
Il Trovatore S.r.l.	28	80%	178	357	(179)
Cairo Pubblicità S.p.A.	8,679	100%	10,995	5,340	5,655
Diellesei S.r.l. in liquidation	(151)	60%	(151)	-	
Cairo Publishing S.r.l.	68	100%	68	1,595	(1,527)
Cairo Sport S.r.l.	10	100%	10	10	-

(*) Amount determined under IFRS

The carrying amount of the investments in Cairo Due S.r.l., Il Trovatore S.r.l. and Cairo Publishing S.r.l. are higher than the amount obtained using the equity method, respectively by Euro 46 thousand, Euro 179 thousand and Euro 1,527 thousand.

The carrying amounts of investments have undergone impairment tests to measure any potential indication of impairment of their realizable values, as defined by value in use, that is, the present value of their cash flow, estimated according to the expected results of the investments based on the most recent budgets and business plans. The use of these estimates is believed to support the carrying amount of the investment.

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

- three-year budget period,
- a growth rate of 1% to extrapolate the cash flows beyond the current budget period,
- a weighted average cost of capital (wacc) of 10.5% considered consistent with the company's industry.

None of the above cases determined the need for the recognition of an impairment loss.

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 and its investments.

Associate

In 2011, the investment held in the listed company Dmail Group S.p.A. (765,000 shares, or 10% of the share capital) was reclassified from “investments in other companies” (“available for sale”) to “investments in associates”, with the resulting measurement using the equity method in the consolidated financial statements, and at cost in the separate financial statements of Cairo Communication. The reasons for the reclassification were the following:

- on 8 April 2011, Cairo Communication had jointly submitted the lists of candidates with another shareholder to renew the Board of Directors and the Board of Statutory Auditors, exercising, for the first time ever since holding the investment (2005), the rights arising from the list vote;
- submission of the lists, therefore exercise of such rights, was consistent with the intention to exercise greater influence in the management of the associate, whose new Board of Directors is currently working on a long term business plan to kick-start and develop business activities and pursue greater operational efficiency.

At their meeting of 9 May 2011, the Shareholders of the Dmail Group appointed Fabio Tacciarina as member of the Board of Directors, and Luca Berta as Chairman of the Board of Statutory Auditors, both drawn from the minority lists jointly submitted by Cairo Communication S.p.A. and Niteroi S.r.l.

The date taken as reference for reclassification was 8 April 2011 (date of submission of the lists), with a carrying amount of Euro 2.91 per share (average stock exchange price 1 January 2011 - 8 April 2011). “Fair value measurement effects” refers to the adjustment of the carrying amount of the investment at 8 April 2011, with a balancing-entry of Euro 8 thousand in the statement of comprehensive income and equity.

At 31 December 2011, the stock exchange price was Euro 1.32 per share versus the carrying amount of Euro 2.91 per share. The average stock exchange price in 2011 was approximately Euro 2.37 per share (Euro 2.72 the average price per share in the first half of the year). The share price dropped mainly in the last quarter of 2011, a performance related also to the current market crisis.

Given the share’s performance and the equity method used in the consolidated financial statements of Cairo Communication, an impairment test was conducted with the assistance of external consultants, by separately measuring the different activities of Dmail Group. The methods used were based on the discounting of expected results and on current market multiples, drawing on recent research carried out by independent professionals.

The application of this method resulted in the recognition, in 2011, of an impairment loss on the investment in Dmail Group, to adjust “recoverable amount”, equivalent to Euro 765 thousand, with a balancing-entry in profit and loss. The carrying amount at 31 December 2011 is Euro 1,462 thousand, which is in line with the equity method used to measure the investment.

The main financial statements figures of Dmail Group, drawn from its interim financial statements at 31 December 2011, gross of tax effects and excluding statement of financial position figures other than the net financial position, from the consolidated financial statements at 31 December 2010 and from the consolidated interim report at 30 June 2011, are summarized in the following tables:

Income statement	12 months at 31 December 2011	6 months at 30 June 2011	12 months at 31 December 2010
Revenue and other income	76,723	38,261	77,502
Gross operating profit from continuing operations	2,915	2,046	3,634
Net operating profit (loss) from continuing operations	(280)	577	153
Pre-tax loss from continuing operations	(2,338)	(415)	(1,174)
Loss from discontinued operations	(3,830)	(101)	(1,675)
Pre-tax loss	(6,169)	(516)	(4,488)
Profit (loss) for the year	nd	(744)	(3,083)

As mentioned earlier, the company is currently working to implement a new long term business plan to kick-start and develop business and pursue greater operational efficiency.

Statement of financial position	30 June 2011	31 December 2010
Non-current assets	37,448	37,674
Current assets	9,682	5,758
Total assets	47,130	43,432
Non-current borrowings and provisions	6,635	6,444
Net financial position -continuing operations	27,397	27,039
Net financial position - discontinued operations	(149)	(4,143)
Equity attributable to the owners of the parent	12,091	12,821
Equity attributable to non controlling interest	1,156	1,271
Total equity and liabilities	47,130	43,432

Net financial position	31 December 2011	30 June 2011	31 December 2010
Net financial position - continuing operations	(31,071)	(27,397)	(27,039)
Net financial position - discontinued operations	110	149	4,143
Total equity and liabilities	(30,961)	(27,248)	(22,896)

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13. Receivables from subsidiaries and other non-current financial assets

Receivables from subsidiaries

The item refers to a non-interest bearing shareholder loan made to the subsidiary Cairo Due S.r.l., amounting to Euro 386 thousand (unchanged on 31 December 2010).

Non-current financial assets

As at 31 December 2011, non-current financial assets - mainly guarantee deposits - amounted to Euro 12 thousand (unchanged on 31 December 2010).

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14. Deferred tax assets

As at 31 December 2011, deferred tax assets amounted to Euro 806 thousand (Euro 905 thousand at 31 December 2010). These assets can be analyzed as follows:

	31/12/11		31/12/10	
Deferred tax assets (€ thousands)	Temporary differences	Tax effect	Temporary differences	Tax effect
Taxed allowance for impairment	2,190	602	2,681	737
Entertainment expenses deductible in future years	-	-	1	1
Other temporary differences	736	204	606	167
Total deferred tax assets	2,926	806	3,288	905

Deferred tax assets relate to the recognition at 31 December 2011, of deferred tax assets on the temporary differences between the carrying amount of recognized assets and liabilities and their tax values.

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

15. Trade receivables

Trade receivables amounted to Euro 1,564 thousand, decreasing by Euro 92 thousand on 31 December 2010. These are broken down as follows:

Trade receivables (€ thousands)	31/12/11	31/12/10	Change
Trade receivables	3,704	4,288	(584)
Allowance for impairment	(2,140)	(2,632)	492
Total trade receivables	1,564	1,656	(92)

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 2011 (€ thousands)	Current	Past due between 30 and 60 days	Past due between 61 and 90 days	Past due between 91 and 180 days	Past due more than 180 days	Total
Trade receivables	131	-	-	30	3,542	3,704
Allowance for impairment	-	-	-	-	(2,140)	(2,140)
Trade receivables	131	-	-	30	1,403	1,564

31 December 2010 (€ thousands)	Current	Past due between 30 and 60 days	Past due between 61 and 90 days	Past due between 91 and 180 days	Past due more than 180 days	Total
Trade receivables	129	0	0	272	3,887	4,288
Allowance for impairment	-	-	-	(23)	(2,609)	(2,632)
Trade receivables	129	0	0	249	1,278	1,656

Trade receivables are shown net of 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 revenues 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. Since 2009, advertising sales have been managed under a sub-concession agreement with the subsidiary Cairo Pubblicità.

16. Receivables from subsidiaries

They amounted to Euro 78,117 thousand, decreasing by Euro 7,473 thousand on 31 December 2010. Receivables from subsidiaries include:

Receivables from subsidiaries (€ thousands)	31/12/11	31/12/10
Cairo Due S.r.l.	58	58
Cairo Editore S.p.A.	712	2,893
Il Trovatore S.r.l.	311	285
Cairo Publishing S.r.l.	238	233
Cairo Pubblicità S.p.A.	76,798	82,121
Total receivables from subsidiaries	78,117	85,590

Receivables from Cairo Pubblicità S.p.A. (Euro 74,077 thousand at 31 December 2011) are mainly receivables on the sub-concession contracts. The decrease in these receivables is a result of the new Group contractual framework for print media advertising sales.

The other trade receivables from Cairo Pubblicità S.p.A., as receivables from Il Trovatore S.r.l. and Cairo Due S.r.l. are mainly referable to centralized services provided by Cairo Communication S.p.A to Group companies. These services are provided through annual contracts renewable year by year.

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17. Other receivables and other current assets

These amount to Euro 2,285 thousand, decreasing by Euro 6,663 thousand on 31 December 2010, and can be analyzed as follows:

Other receivables and other current assets (€ thousands)	31/12/11	31/12/10	Change
VAT credit	1,097	0	1,097
IRAP advance payments	169	0	169
Receivables from others	814	8,613	(7,799)
Prepayments and accrued income	205	335	(130)
Total other receivables and other current assets	2,285	8,948	(6,663)

Withholding and prepaid taxes are taken as a deduction from the payment of taxes to relevant authorities.

Receivables from other at 31 December 2010 also included Euro 7.5 million, the credit balance from Telepiù arising from the arbitration award in Note 2, which Telepiù argued it was entitled to offset against the restricted deposit illustrated in the 2010 report, which Cairo Communication had challenged in court.

In August 2011, the Court of Milan ruled against the claim filed by Cairo Communication S.p.A., and in favour of Telepiù's right to offset, up to the relevant amount, its liability arising from the arbitration award issued on 27 January 2011 against the amount held in the restricted deposit.

In the separate financial statements at 31 December 2011, the foregoing receivable was therefore offset (i) against amount payable to Telepiù (6.9 million Euro) recorded in "trade payables" (arising from invoices issued by Telepiù following the circumstances that led to the termination of the concession contract) and (ii) against "other liabilities" referring to the deferred interest accrued (Euro 557 thousand) on the foregoing term deposit held with Telepiù SpA. The variation in trade and other liabilities is, therefore, partly due to this offsetting.

The outcome had no consequence on the asset and financial position as at 31 December 2011, with the exception of the legal expenses paid, which were recorded in the income statement.

Accrued income and prepaid expenses amounted to Euro 205 thousand, decreasing by Euro 130 thousand versus 31 December 2010.

18. Securities and other current financial assets

At 31 December 2010, the item included Euro 79 thousand referring to the current financial assets disposed of during the year.

19. Cash and cash equivalents

Cash and cash equivalents amounted to Euro 37,476 thousand, increasing by Euro 4,813 thousand on 2010. The item can be analyzed as follows:

Cash and cash equivalents (€ thousands)	31/12/11	31/12/10	Change
Bank and postal accounts	37,470	32,660	4,810
Cash and cash equivalents	6	3	3
Total	37,476	32,663	4,813

Cash management continues to be managed prudently.

The **net financial position** of Cairo Communication S.p.A. at 31 December 2011, compared with that at 31 December 2010, can be summarized as follows:

(€ thousands)	31/12/2011	31/12/2010	Change
Cash and cash equivalents	37,476	32,663	4,813
Current financial assets	-	79	(79)
Total	37,476	32,742	4,734

In the 2010 statement of cash flows, “net final cash and cash equivalents” did not include current financial assets of Euro 79 thousand.

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20. Equity

Equity as at 31 December 2011 was Euro 60,342 thousand, decreasing by Euro 10,639 thousand on 31 December 2010, for the distribution of dividends approved by the Shareholders (Euro 19,393 thousand), the distribution of an interim dividend for 2011 approved by the Board of Directors (Euro 11,696 thousand), the profit for the year (Euro 19,258 thousand), the disposal of treasury shares (Euro 1,200 thousand) and the fair value measurement of available-for-sale assets (Euro 8 thousand).

In 2011:

- At their Meeting on 28 April 2011 the Shareholders approved the distribution of a dividend of 0.25 Euro per share, inclusive of tax, for a total of Euro 19,393 thousand;
- the Board of Directors, on 30 November 2011, approved the distribution of an interim dividend for 2011, amounting to Euro 0.15 per share (inclusive of tax), for a total of Euro 11,696 thousand, Euro 10,240 thousand of which had been distributed at 31 December 2011.

Share capital

The share capital as at 31 December 2011 was Euro 4,074 thousand, fully subscribed and paid, comprising 78,343,400 ordinary shares, to which no nominal amount is attributed.

In accordance with the bylaws the shares are registered, indivisible and freely transferable. They are subject to the requirements of representation, legitimization, circulation of the company investment required for securities traded on regulated markets.

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 defined by the Law.

No securities having special rights of control have been issued.

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

No share incentive plans are foreseen involving share capital increases, including bonus issues.

The reconciliation between the number of shares outstanding as at 31 December 2011 and those at 31 December 2010 is as follows:

	31/12/2010	Purchase of treasury shares	Disposal of treasury shares	31/12/2011
Ordinary shares issued	78,343,400	-	-	78,343,400
Less: treasury shares	(771,326)	-	400,000	(371,326)
Ordinary shares outstanding	77,572,074	-	400,000	77,972,074

Share premium reserve

As at 31 December 2011 the share premium reserve amounted to Euro 48,288 thousand.

Retained earnings

At 31 December 2011 the balance showed a positive Euro 494 thousand. The item includes the IFRS first time adoption reserve, with a negative balance of Euro 1,313 thousand.

Retained earnings	31/12/2011	31/12/2010
(€ thousands)		
Retained earnings	1,807	4,038
Retained earnings – IFRS first time adoption reserve	(1,313)	(1,313)
Reserve for available-for-sale assets	-	(2,203)
Total	494	522

The reclassification of the investment in Dmail Group S.p.A from “investments in other companies” to “investments in associates”, illustrated in Note 12, led to the reclassification of the negative equity reserve related to available-for-sale financial assets, amounting to Euro 2,203 thousand, in “retained earnings”.

Other reserves

As at 31 December 2011, other reserves, amounting to Euro 1,057 thousand, unchanged on the prior year, are broken down as follows:

Other reserves	31/12/2011	31/12/2010
(€ thousands)		
Legal reserve	815	815
Negative goodwill	225	225
Other reserves	17	17
Total	1,057	1,057

Treasury shares reserve

At 31 December 2010, Cairo Communication held 771,326 treasury shares, or 0.985% of the share capital, subject to the requirements of art. 2357 ter of the Italian Civil Code, for a value of Euro 2,351 thousand deducted from equity.

On 28 April 2011, after revoking a similar resolution adopted on 28 April 2010, the Shareholders approved the proposal to acquire treasury shares in accordance with art. 2357 and subsequent articles of the Italian Civil Code, for the purpose of stabilizing the Company share price and

sustaining liquidity, and, if deemed necessary by the Board of Directors, of establishing a “shares stock” as provided in Consob regulation 16839/2009. The Board was authorized to acquire treasury shares up to the maximum number permitted by law, for a period of 18 months from the date of authorization, by use of available reserves, including the share premium reserve, as resulting from the most recently approved annual financial statements. Specifically, the Board of Directors will be authorized to acquire treasury shares on one or more occasions, acquiring shares directly on the market and through authorized intermediary – in accordance to the procedures provided by art. 144 (ii), paragraph 1, letter b of the Stock Exchange Regulations and relevant Instructions – and, in case such operations are carried out, under accepted market practices, pursuant to the regulations introduced by Consob Resolution No. 16839/2009. Minimum price and maximum acquisition price per share are set at an amount equal to the average official purchase price of the share on Borsa Italiana S.p.A. for the 15 working days preceding the purchase respectively reduced or increased by 20%, in any event within a maximum limit of Euro 6.5 per share. In case such operations are carried out under accepted market practices, the purchase of treasury shares is subject to further limits, including price limits, provided for thereto. The proposal of the Board also allows for the authorization to sell, on one or more occasions, any acquired treasury shares, setting the minimum sale price per share no lower than the minimum price calculated following the criteria adopted for their purchase. Should the treasury shares be sold under accepted market practices pursuant to Consob Resolution 16839/2009, the sale of treasury shares shall be subject to further limits, including price limits, provided for thereto.

In 2011, as part of the share buy-back plans, 400,000 treasury shares were sold (0.511% of the share capital) following entry in the shareholding structure of an institutional investor of prominent standing, at a unit price of Euro 3.00 per share, equivalent to a total value of Euro 1.2 million.

At 31 December 2011, Cairo Communication held a total of n. 371,326 treasury shares, or 0.474% of the share capital, for a carrying amount of Euro 1,132 thousand, subject to art. 2357 ter of the Italian Civil Code.

Interim dividend for 2011

As mentioned earlier, the Board of Directors, on 30 November 2011, approved the distribution of an interim dividend for 2011, amounting to Euro 0.15 per share (inclusive of tax), for a total of Euro 11,696 thousand, Euro 10,240 thousand of which had been distributed at 31 December 2011.

The following table shows equity items and indicates if they can be used and distributed, and tax restrictions if any:

(€ thousands)	Use over the previous three years				
	Amount	Possibility of use	Available portion	To cover losses	Other (dividends)
Share capital	4,074	---	0	0	0
Treasury shares	(1,132)	---	0	0	0
Share premium reserve	48,288	ABC	48,288(1)	0	(8,678)
Legal reserve	815	B	0	0	0
Other reserves	17	ABC	17	0	0
Negative goodwill	225	ABC	225	0	0
Retained profit	494	ABC	494	0	(41,682)
Interim dividend 2011	(11,696)		(11,696)		
Total	41,084		37,328		

Legend:

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 Civil Code

Profit for the year

Profit for the year amounted to Euro 19,257 thousand (Euro 17,899 thousand at 31 December 2010).

21. Post-employment benefits

This item amounted to Euro 761 thousand, with a net increase by Euro 93 thousand on 2010. The composition and movement of the item is shown as follows:

	Balance as at 31/12/10	Paid during the year	Accrued during the year	Balance as at 31/12/11
Employees	291	(11)	53	333
Managers	377	-	51	428
Total	668	(11)	104	761

Post-employment benefits reflect allocations made for all employees at the reporting date, made in accordance with art. 2120 of the Italian Civil Code. The liability so determined does not vary significantly from the liability that would result from an actuarial valuation.

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
Managers	6	1	7	7
Junior managers	2	-	2	2
Employees	19	(1)	18	18
Total	27	-	27	27

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22. Provisions for risks and charges

The provisions for risks and charges amounted to Euro 149 thousand, with a net decrease of Euro 20 thousand on 2010.

Provisions for risks and charges	Balance as at 31/12/10	Utilized	Released	Accrued	Balance as at 31/12/11
(€ thousands)					
Sundry risks	-	-	-	-	-
Risks on investments	169	(30)	-	10	149
Total	169	(30)	-	10	149

As mentioned earlier, the provision for risks on investments refers entirely to Diellesei S.r.l. in liquidation, accrued during 2005/2006 as a result of the subsidiary's net deficit.

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23. Trade payables

Trade payables amounted to Euro 69,712 thousand, increasing by Euro 11,662 thousand on 31 December 2010.

24. Receivables from and payables to parents

Receivables from parents amounted to Euro 1,336 thousand, increasing by Euro 1,275 thousand on 31 December 2010. Euro 1,275 thousand refers to receivables from U.T. Communications arising from the national tax consolidation scheme, net of receivables (interest withholdings) transferred. The receivable stem from the tax advance payments netted against tax liabilities for the year.

As already mentioned, Cairo Communication and its subsidiaries Cairo Editore S.p.A., Cairo Pubblicità S.p.A., Diellesei S.r.l. in liquidation, Cairo Due S.r.l. and Cairo Publishing S.r.l. have adhered to the national tax consolidation scheme of UT Communications S.p.A.

The consolidation scheme, which governs the financial aspects of amounts paid or received in return for the advantages or disadvantages resulting from the tax consolidation, specifically provides that any greater charges or minor benefits that may accrue to the Company resulting from adhesion to the procedure, be suitably remunerated by the Parent.

25. Payables to subsidiaries

Payables to subsidiaries amounted to Euro 2,086 thousand, decreasing by Euro 8,314 thousand on 31 December 2010. The following table shows the breakdown of payables to subsidiaries that relate to services received in the ordinary course of business:

Payables to subsidiaries	31/12/11	31/12/10
(€ thousands)		
Cairo Editore S.p.A.	-	8,296
Cairo Due S.r.l.	38	38
Diellesei S.r.l. in liquidation	-	47
Cairo Pubblicità S.p.A.	1,886	1,662
Cairo Publishing S.r.l.	6	245
Il Trovatore S.r.l.	156	112
Total payables to subsidiaries	2,086	10,400

At 31 December 2010, payables due to Cairo Editore S.p.A. mainly referred to amounts due from the advertising concession contract on the publisher's magazines. The write-off of these amounts is ascribable to the new Group contractual framework regarding print media advertising sales, under which Cairo Pubblicità has entered directly with Cairo Editore into an exclusive advertising concession contract.

26. Tax liabilities

Tax liabilities amounted to Euro 212 thousand, decreasing by Euro 404 thousand on 31 December 2010. They are broken down as follows:

Tax liabilities	31/12/11	31/12/10
(€ thousands)		
VAT	-	15
Current IRAP taxes	-	444
Other tax liabilities	-	7
Withholding taxes on employees	196	102
Withholding taxes on contract workers	16	55
Total tax liabilities	212	616

As already mentioned, the taxable income of Cairo Communication S.p.A., for IRES purposes, has been recognized as a payable to the parent UT Communications S.p.A., in accordance with the national tax consolidation scheme.

27. Other current liabilities

Other current liabilities amounted to Euro 4,390 thousand, increasing by Euro 1,310 thousand on 31 December 2010. They are broken down as follows:

Other current liabilities	31/12/2011	31/12/2010
<i>(€ thousands)</i>		
Social security charges payable	203	161
Shareholder liability for dividends to be distributed	1,456	-
Other liabilities	2,118	1,858
Deferred income	613	1,061
Total other current liabilities	4,390	3,080

Accrued expenses and deferred income are determined on an accruals basis and mainly relate to income deriving from recharging of the share of print media bad debts, the losses of which have not been fully ascertained and have not been recognised in profit and loss

“Shareholder liability for dividends to be distribute” refers to liabilities for dividends to pay out to the majority shareholder.

At 31 December 2010, accrued expenses and deferred income also included interest accrued on the above-mentioned restricted deposit jointly held with Telepiù SpA. Following the award rendered on 27 January 2010, the balance of the jointly held term deposit, comprising interest, was released to Cairo Communication.

28. Commitments, risks and other information

Guarantees and commitments

Main guarantees given are as follows:

- a bank surety of Euro 16.8 million, expiring on 15 June 2012 issued by Banca Popolare di Milano to Telecom Italia Media S.p.A. (Telecom Group) securing payment of minimum guaranteed fees specified in its contract for the exclusive sale of television advertising space on LA7.
- surety totaling Euro 116 thousand issued by bank and insurance institutes to customers, public bodies and lessors of properties.

Other information

The arbitration proceeding started in July 2010 by Cairo Communication against Telepiù Srl was concluded with the award rendered by the Board of Arbitrators on 16 September 2011. In such procedure, Cairo Communication was claiming that the breach by Telepiù (definitively acknowledged by the arbitration award rendered on 27 January 2010) of the 10 years exclusive concession for the advertising sale on Telepiù channels granted to Cairo TV by Telepiù, implies also the breach by Telepiù of the contract for the sale of the shares of Cairo TV (former Telepiù Pubblicità), being such contracts contextual and related.

The Board of Arbitrators acknowledged the claim filed by Cairo Communication, limited to breach of contract, but rejected Cairo's claim for compensation for damage arising from such breach by Telepiù. The Board of Arbitrators - with the motivated dissenting opinion of Prof. Francesco Benatti - taken the view that relevant damage was absorbed by the damage for loss of profit compensated to Cairo Communication (as acquirer of Cairo TV) under the foregoing award of 27 January 2010.

The outcome of the arbitration had no consequence on the financial statements as at 31 December 2011, with the exception of the legal expenses paid, which were recognised in profit and loss.

In 2011, the three-year contractual target (Euro 378 million) securing Cairo a three-year renewal (2012-2014) of the advertising concession contract, was achieved; in October 2011, Cairo Communication and TIMedia acknowledged that the agreement entered into on 19 November 2008 was to be deemed renewed for the further three-year period of 2012-2014, in accordance with the terms and conditions established under the contract and under the additional agreements thereto. The advertising concession contract regarding LA7 sets minimum annual gross advertising revenue in 2012 of Euro 126 million, with minimum annual guaranteed fees for Telecom Italia Media of Euro 88.2 million (70%).

In December 2010, Telecom Italia Media and Cairo agreed to revise the advertising concession contract of 19 November 2008. Specifically, for 2011 and for the 2012-2014 three-year period, both set additional annual advertising revenue targets (unguaranteed) with respect to the minimum annual revenue, proportional to the achievement by Telecom Italia Media of annual targets of share higher than the given 3% for LA7's share. Cairo's achievement of these additional targets, or payment to Telecom Italia Media of equivalent dues, will entitle Cairo to renew the contract up to 31 December 2019. Otherwise, Telecom Italia Media is authorized to withdraw from the contract.

The contract regarding the LA7d digital channel sets minimum gross advertising revenue in 2012 of Euro 8 million for a 0.2% share of the channel, with minimum guaranteed fees for Telecom Italia Media of Euro 5.6 million, paid as per the contract on a monthly basis. A result higher or lower than the 0.2% share will produce a corresponding increase or decrease in minimum annual revenue and in the guaranteed minimum fee.

As the result of a VAT audit performed on Cairo Communication S.p.A., in its report, the Guardia di Finanza (the Italian Tax Police) identified some findings for 2002 and subsequent years (2003, 2004 and 2005) relating to the application if any of VAT on dealing rights charged to media centres, which were subsequently included in the final audit reports issued in January 2008 (for 2002), in June 2008 (for 2003, 2004 and 2005), and on 24 November 2011 (for 2006), which the company has challenged. Regarding 2006, at the date of writing of these notes, the hearing for the appeal has yet to be scheduled. For all the periods in question (2002, 2003, 2004 and 2005), the Provincial Tax Commission of Milan has ruled in favour of the Company's appeals. The Agenzia delle Entrate (Tax Authority Agency) has filed an appeal with the Regional Tax Commission of Milan against these decisions. In April 2010, the Regional Tax Commission of Milan ruled in favour of the Agency's appeal regarding 2002, and in October 2011 also regarding the years 2003, 2004 and 2005, on questionable grounds. Cairo Communication has already appealed to the Court of Cassation against judgement regarding 2002, for which the tax claim amounts to Euro 41 thousand, in addition to penalties of Euro 51 thousand, and will appeal to the Court of Cassation also for the subsequent years 2003, 2004 and 2005, for which the tax claim totals Euro 247 thousand, in addition to penalties of Euro 272 thousand and interest. The tax claim for 2006 amounts to Euro 63 thousand, in addition to penalties of Euro 79 thousand and interest. Based also on the advice of its tax consultants, the Directors believe there are fundamental reasons and rights to oppose the relevant findings.

The Agenzia delle Entrate (Italian Tax Authorities) challenged Cairo Communication for using excess IRES from the 2006 tax return to offset 2007 payments. While not challenging the relevant credit to Cairo Communication, the Italian Tax Authorities has refuted its use for offsetting purposes on grounds of non-compliance of procedures (specifically, the Italian Tax Authorities claim that use of the credit would have required a formal credit transfer from the Company to the Company). On 6 July 2010, the Company received a tax bill, substantially for payment of Euro 28 thousand as interest, and Euro 145 thousand as penalties, since the credit has not been disallowed. Cairo Communication has filed an appeal with the Provincial Tax Commission. As at the date of the writing of these notes, the hearing for the appeal has yet to be scheduled. Based also on the advice of its tax consultants, the Directors believe there are fundamental reasons and rights to oppose the relevant findings.

A previous shareholder of the subsidiary Il Trovatore S.r.l., who did not sell its shares to the parent, had risen a claim against the current minority shareholder, involving Cairo Communication S.p.A. indirectly, questioning the validity of the contract under which he had sold the quota in the limited partnership Il Trovatore and the transformation of this company from a limited partnership to a

limited liability company (S.r.l.), and requesting the annulment of the subsequent acquisition of the company by Cairo Communication. The requests of the counterparty were rejected in the first instance, although the counterparty has filed an appeal. Based also on the advice of its legal counsels, the Directors believe that the grounds of these claims are such as not to request a specific accrual.

29. Related party transactions

Transactions carried out by Cairo Communication with related parties and the effect on the financial statements can be shown as follows:

Receivables and financial assets (€ thousands)	Trade receivables	Other receivables and current assets	Intra-group financial assets	Other current financial assets
Parent U.T. Communications	61	1,275	-	-
Subsidiaries of Cairo Communication Group				
Cairo Pubblicità S.p.A.	76,798	-	-	-
Cairo Editore S.p.A.	712	-	-	-
Cairo Due S.r.l.	58	-	-	386
Cairo Publishing S.r.l.	12	-	-	225
Il Trovatore S.r.l.	311	-	-	-
Associates of U.T. Communications Group				
Torino FC S.p.A.	239	-	-	-
Total	78,191	1,275	-	612

Payables and liabilities (€ thousands)	Trade payables	Other payables and current liabilities	Intra-group financial payables	Other current financial liabilities
Parent U.T. Communications	-	-	-	-
Subsidiaries of Cairo Communication Group				
Cairo Pubblicità S.p.A.	1,886	-	-	-
Cairo Editore S.p.A.	-	-	-	-
Cairo Due S.r.l.	38	-	-	-
Cairo Publishing S.r.l.	6	-	-	-
Il Trovatore S.r.l.	155	-	-	-
Associates of U.T. Communications Group				
Torino FC S.p.A.	17	-	-	-
Total	2,102	-	-	-

“Other liabilities” include, for the amount of Euro 1,456 thousand, payables for dividends to distribute to the majority shareholder.

Income and expense (Euro/000)	Operating revenue	Operating cost	Financial income	Financial expense	(Expense)/ Income from investments
Parent U.T. Communications	-	-	-	-	-
Subsidiaries of Cairo Communication Group					
Cairo Pubblicità S.p.A.	139,845	-	-	-	2,273
Cairo Editore S.p.A.	480	-	-	-	10,166
Cairo Publishing S.r.l.	-	(5)	3	-	-
Il Trovatore S.r.l.	22	(108)	-	-	-
Associates					
Dmail Group	-	-	-	-	(765)
Associates of U.T. Communications Group					
Torino FC S.p.A.	100	-	-	-	-
Total	140,447	(113)	3	-	(765)

“Income (expense) from investments” include, for the amount of Euro 12,439 thousand, dividends received from the subsidiaries Cairo Editore and Cairo Pubblicità, net of the impairment loss of the investment in Dmail Group, amounting to Euro 765 thousand.

Specifically, income and expense in relation to subsidiaries can be analyzed as follows:

Income and expense	Cairo Editore	Cairo Pubblicità	Cairo Publishing	Diellesei in liquidation	Il Trovatore	Torino FC
INCOME						
Sub-concession payment	-	136,845	-	-	-	-
Administrative services and use of serviced spaces	480	3,000	-	-	22	100
Recharged costs	-	-	-	-	-	-
Sale of advertising space	-	-	-	-	-	-
Interest income	-	-	3	-	-	-
Dividends	10,166	2,273	-	-	-	-
Total	10,646	142,118	3	-	22	100
EXPENSE						
Share of publishing costs	-	-	(5)	-	-	-
Internet services	-	-	-	-	(108)	-
Other recharges	-	-	-	-	-	-
Total	-	-	(5)	-	(108)	-

Cairo Communication supplies a range of services to some of its subsidiaries and associates, mainly relating 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 2011, 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, Boomerang, and CNN) 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 2011, 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.

As mentioned earlier, Cairo Communication and its subsidiaries Cairo Editore S.p.A., Cairo Pubblicità S.p.A., Diellesei S.r.l. in liquidation, Cairo Due S.r.l. and Cairo Publishing S.r.l. have adhered to the national tax consolidation scheme of U.T. Communications S.p.A.

Fees paid to the directors in 2011 are analyzed in Note 31 “*Board of Directors’ and Board of Statutory Auditors’ fees*” and in the Remuneration Report, prepared pursuant to art. 123 ter of the TUF.

During the year, no transactions were carried 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 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*”

30. Risk management

Liquidity risk

Cairo Communication is not exposed to liquidity risk, in that on one hand, significant financial resources are held with a net available positive financial position of Euro 37.4 million whilst on the other, it attempts to ensure that an appropriate ability to generate cash is maintained, even under the current market conditions.

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

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

Currency and interest rate risks

Cairo Communication is not exposed to these risks, in that on one hand, there is no loan finance, whilst on the other hand operations are carried out exclusively in Italy, and revenue is generated entirely in the country and main costs are incurred in Euro.

The interest rate risk only affects the yield on available cash. Specifically, with reference to the net financial position at 31 December 2011, a one percentage point reduction in the interest rate would result in a reduction in annual financial income of approximately Euro 0.4 million.

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

Given the limited exposure to both interest rate and FOREX risk, the Company does not use financial derivative and/or hedging instruments.

Credit risk

Cairo Communication is exposed to credit risk, primarily in relation to its advertising sales activities. This risk is however mitigated by the fact that exposure is divided across a large number of customers and that credit monitoring and control procedures are in place.

It is of course possible that both the financial crisis and the uncertainty factors in the short and medium term could deteriorate, along with the resulting credit squeeze, and negatively impact on the quality of credit and on general payment terms.

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

The following information refers to the 2011 fees paid to Directors, Statutory Auditors, General Directors and key management personnel, also in subsidiaries, analyzed in detail in the Remuneration Report, prepared pursuant to art. 123 ter of the TUF:

Name and surname	Position	Term of office	Term expiry date	Fees	Benefits in kind *	Bonuses and other incentives	Other fees **
Urbano R. Cairo	Chairman BoD	Jan.-Dec. 2011	31/12/2011	700	16	-	505
Uberto Fornara	CEO	Jan.-Dec. 2011	31/12/2011	475	4	-	384
Roberto Cairo	Director	Jan.-Dec. 2011	31/12/2011	20	-	-	-
Marco Janni	Director	Jan.-Dec. 2011	31/12/2011	33	-	-	-
Antonio Magnocavallo	Director	Jan.-Dec. 2011	31/12/2011	33	-	-	-
Marco Pompignoli	Director	Jan.-Dec. 2011	31/12/2011	220	4	-	279
Roberto Rezzonico	Director	Jan.-Dec. 2011	31/12/2011	40	-	-	-
Mauro Sala	Director	Jan.-Dec. 2011	31/12/2011	33	-	-	-
Key management personnel	N/A	Jan.-Dec. 2011	N/A	-	8	-	763
Marco Moroni	Chairman Board of Statutory Auditors	Jan.-Dec. 2011	31/12/2011	30	-	-	16
Maria Pia Maspes	Standing auditor	Jan.-Dec. 2011	31/12/2011	20	-	-	10
Marco Giuliani	Standing auditor	Jan.-Dec. 2011	31/12/2011	20	-	-	-

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

- Urbano Cairo: fees pursuant to art. 2389, paragraph 3, Italian Civil Code (Euro 680 thousand).
- Uberto Fornara: fees pursuant to art. 2389, paragraph 3, Italian Civil Code (Euro 455 thousand).
- Marco Janni: fees for attendance in meetings of the Remuneration Committee and Related Party Committee (Euro 13 thousand);
- Antonio Magnocavallo: fees for attendance in meetings of the Remuneration Committee and the Audit Committee (Euro 13 thousand);
- Marco Pompignoli: fees pursuant to art. 2389, paragraph 3 Italian Civil Code (Euro 200 thousand);
- Roberto Rezzonico: fees for attendance in meetings of the Audit Committee and Related Party Committee (Euro 20 thousand).
- Mauro Sala: fees for attendance in meetings of the Remuneration Committee, Audit Committee and Related Party Committee (Euro 13 thousand);

** Other fees refers to:

- Urbano Cairo: fees for his duties performed for Cairo Editore (Euro 500 thousand) and other companies of the Group (Euro 5 thousand).
- Uberto Fornara: gross fees as senior manager payable by Cairo Communication (Euro 279 thousand) and fees for his duties performed for Cairo Pubblicità (Euro 100 thousand) and other companies of the Group (Euro 5 thousand).
- Marco Pompignoli: gross fees as senior manager payable by Cairo Communication (Euro 184 thousand) and fees for his duties performed for Cairo Pubblicità (Euro 90 thousand) and other companies of the Group (Euro 5 thousand).
- Key management personnel: gross fixed annual Group fees for a total of Euro 629 thousand (comprising gross remuneration as manager) and variable incentive components amounting to 134 thousand.

On 28 April 2011, the Shareholders of Cairo Communication S.p.A. had resolved on annual fees of Euro 220 thousand, which the meeting of the Board of Directors on 3 May 2011 had split up in, respectively, Euro 20 thousand as fees for the Remuneration Committee, the Internal Control Committee and the Related Party Committee. The remaining Euro 160 thousand was split up among the eight directors.

On 12 May 2011, the Board of Directors, on the proposal of the Remuneration Committee and the favourable opinion of the Related Party Committee, pursuant to art. 2389, paragraph 3 of the Italian Civil Code, resolved for:

- fees to Chairman Urbano Cairo, CEO Uberto Fornara, and Director Marco Pompignoli, who hold particular responsibilities, amounting respectively to Euro 480 thousand, Euro 60 thousand and Euro 90 thousand,
- a variable fees mechanism for CEO Uberto Fornara, based mainly on advertising revenue growth targets.

Under the decisions adopted by the Board of Directors on 12 May 2011 and on 14 February 2012, on the proposal of the Remuneration Committee and the favourable opinion of the Related Party Committee, further fees were established for 2011, specifically:

- for the Chairman – based on overall quality assessments on results achieved - Euro 200 thousand.
- for CEO Uberto Fornara – based on the variable fees mechanism defined by the Board on 12 May 2011 based mainly on advertising revenue growth targets - Euro 395 thousand,
- for Director Marco Pompignoli – based on overall quality assessments on duties performed - Euro 110 thousand.

Moreover, under Consob Communication n. DEM/11012984 of 24 February 2011, point 2.3, letters (a) and (f) it should be noted that:

- there are no agreements in place between the Company and the directors for any fee 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 Company and Uberto Fornara, subject to non-competition commitments in the year following termination of his employment with the Company, for payment of a gross monthly fee of 150% solely of the gross monthly salary in his capacity as manager, which will become effective upon termination of his relationship.

Moreover, there are no succession plans regarding executive directors.

At 31 December 2011, key management personnel of the Cairo Communication Group was composed of:

- Giuseppe Ferrauto (board member, General Manager and manager of Cairo Editore);
- Giuliano Cesari (executive board member and General Manager of Cairo Pubblicità) and manager of Cairo Communication.

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

32 Transactions deriving from atypical and/or unusual transactions

Pursuant to Consob Communication of 28 July 2006 n. DEM/6064296, we note that in 2011, Cairo Communication did not perform any atypical and/or unusual transactions as defined by the above Communication. Moreover, there are no cost and revenue components deriving from events or transactions which by their nature or size are considered non-recurring.

As explained in Note 2, in the 2010 income statement, income deriving from the arbitration pending from 2004 between Cairo Communication S.p.A. and Telepiù S.r.l. has been shown separately owing to its non-recurring nature and size.

For the Board of Directors
Chairman Urbano R. Cairo

Cairo Communication S.p.A.
Financial statements at 31 December 2011 – Annexes
and Appendix

**ANNEX 1 - LIST OF INVESTMENTS PURSUANT TO PARAGRAPH V OF ART.
2427 OF THE CIVIL CODE**

SUBSIDIARIES:

Company name:	Cairo Editore S.p.A.
Registered office:	Milan – Corso Magenta, 55
Share capital:	1,043,256
Equity at 31/12/2010:	12,835,407
Profit for 2010:	10,170,901
Equity as per draft financial statements at 31/12/2011:	13,665,073
Profit as per draft financial statements at 31/12/2011:	11,000,567
Ownership:	99.95%

Company name:	Cairo Due S.r.l.
Registered office:	Milan – Via Tucidide, 56
Quota capital:	46,800
Equity at 31/12/2010:	90,457
Loss for 2010:	(2,903)
Equity as per draft financial statements at 31/12/2011:	86,789
Loss as per draft financial statements at 31/12/2011:	(3,668)
Ownership:	100%

Company name:	Il Trovatore S.r.l.
Registered office:	Milan – Via Tucidide, 56
Quota capital:	25,000
Equity at 31/12/2010:	27,553
Loss for 2010:	(7,689)
Equity as per draft financial statements at 31/12/2011:	31,838
Profit as per draft financial statements at 31/12/2011:	4,285
Ownership:	80%

Company name:	Cairo Pubblicità S.p.A.
Registered office:	Milan – Via Tucidide, 56
Share capital:	2,818,400
Equity at 31/12/10:	6,268,451
Profit for 2010:	2,272,858
Equity as per draft financial statements at 31/12/2011:	8,679,964
Profit as per draft financial statements at 31/12/2011:	4,684,371
Ownership:	100%

Company name:	Diellesei S.r.l. in liquidation
Registered office:	Milan – Via Tucidide, 56
Quota capital:	10,000
Net deficit at 31/12/2010:	(171,408)
Loss for 2010:	(67,459)
Net deficit as per draft financial statements at 31/12/2011:	(151,405)
Loss as per draft financial statements at 31/12/2011:	(9,997)
Ownership	60%

Company name:	Cairo Publishing S.r.l.
Registered office:	Milan – Corso Magenta, 55
Quota capital:	10,000
Equity at 31/12/2010	316,568
Loss for 2010:	(85,777)
Equity as per draft financial statement at 31/12/2011:	67,750
Loss as per draft financial statements at 31/12/2011:	(248,818)
Ownership:	100%

Company name:	Cairo Sport S.r.l.
Registered office:	Milan – Via Tucidide, 56
Quota capital:	10,400
Equity at 31/12/2010:	10,133
Loss for 2010:	(267)
Ownership:	100%

INDIRECT SUBSIDIARIES

Company name:	Edizioni Anabasi S.r.l.	
Registered office:	Milan – Corso Magenta, 55	
Quota capital:		10,200
Equity at 31/12/2010:		8,173
Loss for 2010:		(2,156)
Equity as per draft financial statements at 31/12/2011:		7,442
Loss as per draft financial statements at 31/12/2011:		(2,891)
Ownership:		100%

ANNEX 2

Summary figures of draft financial statements of subsidiaries in the advertising segment, il Trovatore and discontinued operations at 31 December 2011.

	Cairo Pubblicità Financial statements at 31.12.11	Cairo Due Financial statements at 31.12.11	Il Trovatore Financial statements at 31.12.11	Cairo Sport Financial statements at 31.12.11	Diellesei in liquidation Financial statements at 31.12.11
Assets					
A) Share capital proceeds to be received	0	0	0	0	0
B) Intangible fixed assets	1.509.518	0	159	0	0
Tangible fixed assets	18.328	0	5.070	0	0
Financial fixed assets	1.828	0	3.873	0	0
Total non-current assets	1.529.673	0	9.102	0	0
C) Inventory	0	0	0	0	0
Receivables	107.719.400	215.803	383.016	2.367	172.598
Current financial assets	0	0	0	0	0
Liquid funds	9.625.966	353.362	24.696	7.544	19.761
Total current assets	117.345.366	569.165	407.713	9.912	192.359
D) Prepayments and accrued income	214.756	129	555	129	744
Total assets	119.089.795	569.294	417.369	10.041	193.103
Liabilities					
A) Share capital	2.818.400	46.800	25.000	10.400	10.000
Income - related and other reserves	1.167.468	10.428	2.674	0	0
Shareholders' contributions to cover losses	331	24.615	0	0	30.000
Retained earnings/(losses carried forward)	9.394	8.614	(121)	0	(181.408)
Net profit for the year	4.684.371	(3.668)	4.285	(1.179)	(9.997)
Total equity	8.679.964	86.789	31.838	9.221	(151.405)
B) Provisions for risks and charges	1.158.692	0	0	0	100.646
C) Employees' leaving entitlement	768.341	0	6.369	0	0
D) Payables	108.373.674	482.505	379.162	820	243.862
E) Accrued expenses and deferred income	109.124	0	0	0	0
Total equity and liabilities	119.089.795	569.294	417.369	10.041	193.103
Income statement					
A) Production revenue	211.779.331	1.003	353.615	0	12.946
B) Production cost	(204.732.148)	(2.380)	(336.073)	(818)	(24.286)
Operating profit/(loss)	7.047.184	(1.377)	17.541	(818)	(11.340)
C) Net financial income / (expense)	190.293	8.798	(931)	(361)	(101)
D) Adjustments to financial assets	0	0	0	0	0
E) Extraordinary income / (expenses)	0	0	0	0	0
Pre-tax profit/ (loss)	7.237.476	7.421	16.610	(1.179)	(11.441)
Income tax	(2.553.105)	(11.089)	(12.325)	0	1.444
Net profit / (loss) for the year	4.684.371	(3.668)	4.285	(1.179)	(9.997)



ANNEX 3

Summary figures of draft financial statements of subsidiaries in the publishing segment at 31 December 2011.

	Cairo Editore	Cairo Publishing	Edizioni Anabasi
	Financial statements at 31.12.11	Financial statements at 31.12.11	Financial statements at 31.12.11
Assets			
A) Share capital proceeds to be received	0	0	0
B) Intangible fixed assets	15.924.086	23.419	0
Tangible fixed assets	2.156.540	4.031	0
Financial fixed assets	57.760	0	0
Total non-current assets	18.138.385	27.450	0
C) Inventory	3.207.747	181.676	0
Receivables	23.525.278	2.029.068	7.431
Current financial assets	0	0	0
Liquid funds	6.766.524	134.105	10.904
Total current assets	33.499.549	2.344.849	18.334
D) Prepayments and accrued income	261.098	5.908	0
Total assets	51.899.032	2.378.207	18.334
Equity and liabilities			
A) Share capital	1.043.256	10.000	10.200
Income - related and other reserves	1.021.221	5.000	129
Shareholders' contributions to cover losses			4
Retained earnings	600.029	301.568	0
Net profit/(loss) for the year	11.000.567	(248.818)	(2.891)
Total equity	13.665.073	67.750	7.442
B) Provisions for risks and charges	2.207.926	474.672	0
C) Post - employment benefits	2.457.101	132.751	0
D) Payables	33.309.007	1.703.034	10.892
E) Accrued expenses and deferred income	259.925	0	0
Total equity and liabilities	51.899.032	2.378.207	18.334
Income statement			
A) Production revenue	100.885.715	1.583.577	0
B) Production cost	(83.657.711)	(1.891.662)	(3.056)
Operating profit/(loss)	17.228.004	(308.084)	(3.056)
C) Net Financial income	170.063	10.169	165
D) Adjustments to financial assets	(107.767)	0	0
E) Extraordinary income / (expense)	0	0	0
Pre-tax profit/ (loss)	17.290.300	(297.915)	(2.891)
Income tax	(6.289.733)	49.097	0
Net profit / (loss) for the year	11.000.567	(248.818)	(2.891)



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 2010).

	Cairo Pubblicità Financial statements 31.12.10	at	Cairo Due Financial statements at 31.12.10	Il Trovatore Financial statements at 31.12.10	Cairo Sport Financial statements 31.12.10	at	Diellesei in liquidation Financial statements 31.12.10	at
Assets								
A) Share capital proceeds to be received	0		0		0		0	
B) Intangible fixed assets	2.013.107		225	318	0		0	
Tangible fixed assets	21.917		0	12.994	0		0	
Financial fixed assets	1.800		0	3.873	0		0	
Total non-current assets	2.036.824		225	17.185	0		0	
C) Inventory	0		0	0	0		0	
Receivables	89.814.434		222.685	279.749	2.308		171.407	
Current financial assets	0		0	0	0		0	
Liquid funds	9.806.783		349.059	68.289	8.982		37.162	
Total current assets	99.621.217		571.744	348.038	11.290		208.569	
D) Prepayments and accrued income	166.772		46	472	0		3.727	
Total assets	101.824.813		572.016	365.695	11.290		212.296	
Equity and liabilities								
A) Share capital	2.818.400		46.800	25.000	10.400		2.000.000	
Income - related and other reserves	1.167.468		10.429	2.372	0		0	
Shareholders' contributions to cover losses	331		27.518	0	0		14.771.905	
Retained earnings/(losses carried forward)	9.394		8.613	7.870	0		(16.875.854)	
Net profit/(loss) for the year	2.272.858		(2.903)	(7.689)	(267)		(67.459)	
Total equity	6.268.451		90.457	27.553	10.133		(171.408)	
B) Provisions for risks and charges	956.013		0	0	0		102.050	
C) Employees' leaving entitlement	670.798		0	4.636	0		0	
D) Payables	93.854.560		481.559	333.507	1.156		281.654	
E) Accrued expenses and deferred income	74.991		0	0	0		0	
Total equity and liabilities	101.824.813		572.016	365.695	11.290		212.296	
Income statement								
A) Production revenue	169.430.819		79	343.813	1.250		121.090	
B) Production cost	(165.831.285)		(4.099)	(313.751)	(992)		(207.195)	
Operating profit/(loss)	3.599.534		(4.020)	30.062	258		(86.105)	
C) Net financial income / (expense)	53.767		1.117	(1.244)	(525)		732	
D) Adjustments to financial assets	0		0	0	0		0	
E) Extraordinary income / (expense)	0		0	0	0		0	
Pre-tax profit/ (loss)	3.653.301		(2.903)	28.818	(267)		(85.373)	
Income tax	(1.380.443)		0	(36.507)	0		17.914	
Net profit / (loss) for the year	2.272.858		(2.903)	(7.689)	(267)		(67.459)	



ANNEX 5

Summary figures of the most recently approved financial statements of the subsidiaries in the publishing segment (31 December 2010).

	Cairo Editore	Cairo Publishing	Edizioni Anabasi
	Financial statements at 31.12.10	Financial statements at 31.12.10	Financial statements at 31.12.10
Assets			
A Share capital proceeds to be received	0	0	0
B) Intangible fixed assets	17.460.025	47.500	0
Tangible fixed assets	2.090.345	5.287	0
Financial fixed assets	162.707	0	0
Total non-current assets	19.713.077	52.787	0
C) Inventory	2.663.977	288.499	0
Receivables	17.521.478	1.788.495	7.713
Current financial assets	0	0	0
Liquid funds	15.195.801	128.505	10.446
Total current assets	35.381.256	2.205.499	18.159
D) Prepayments and accrued income	262.020	1.577	0
Total assets	55.356.354	2.259.863	18.159
Equity and liabilities			
A) Share capital	1.043.256	10.000	10.200
Income - related and other reserves	1.021.221	5.000	129
Shareholders' contributions to cover losses	0	0	0
Retained earnings	600.029	387.345	0
Net profit/(loss) for the year	10.170.901	(85.777)	(2.156)
Total equity	12.835.407	316.568	8.173
B) Provisions for risks and charges	1.662.486	697.439	0
C) Post - employment benefits	2.666.540	109.897	0
D) Payables	38.129.345	1.135.959	9.986
E) Accrued expenses and deferred income	62.576	0	0
Total equity and liabilities	55.356.354	2.259.863	18.159
Income statement			
A) Production revenue	100.925.078	2.299.287	0
B) Production cost	(85.360.160)	(2.358.223)	(2.220)
Operating profit/(loss)	15.564.918	(58.936)	(2.220)
C) Net financial income / (expense)	64.429	(539)	64
D) Adjustments to financial assets	0	0	0
E) Extraordinary income / (expense)	0	0	0
Pre-tax profit/ (loss)	15.629.346	(59.474)	(2.156)
Income tax	(5.458.445)	(26.303)	0
Net profit / (loss) for the year	10.170.901	(85.777)	(2.156)



APPENDIX

Information pursuant to art. 149-xii of Consob Regulations

The following summary, prepared pursuant to art. 149-xii of Consob Regulations, shows the amounts due for the current period for auditing services and for non-audit services provided by the independent audit firm.

€ thousands	Services rendered by	Amounts due for the period
Audit services		
Audit of the financial statements, the consolidated financial statements, quarterly audits and audit of minor companies	KPMG S.p.A.	67
Subsidiaries		
- Cairo Pubblicità S.p.A.	KPMG S.p.A.	34
- Cairo Editore S.p.A.	Deloitte & Touche S.p.A.	61
Attestation services		
Parent company	KPMG S.p.A *	20
- Cairo Editore S.p.A.	Deloitte & Touche S.p.A.	3

* Fairness opinion on the distribution of interim dividends pursuant to art.2433 bis, paragraph 5 of the Civil Code



DECLARATION ABOUT THE SEPARATE FINANCIAL STATEMENTS
PURSUANT TO ARTICLE 81 (TER) OF CONSOB REGULATION 11971 OF 14
MAY 1999 AND SUBSEQUENT MODIFICATIONS AND AMENDMENTS

1. The undersigned Urbano Roberto Cairo, as Chairman of the Board of Directors, and Marco Pompignoli, as Financial Reporting Manager of Cairo Communication S.p.A., also in accordance with art. 154 bis, paragraphs 3 and 4 of Leg. Dec. February 24, 1998 – n. 58, confirm:

- the suitability of the characteristics of the company and
- the effective application of administrative and accounting procedures for the preparation of the 2011 financial statements.

2. We also confirm that

2.1 the separate financial statements at 31 December 2011:

- 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 to which it is exposed.

Milan, 12 March 2012

For the Board of Directors
Chairman

Financial Reporting Manager

.....
(Urbano Roberto Cairo)

.....
(Marco Pompignoli)

Report of the Board of Auditors to the Shareholders' Meeting of Cairo Communication S.p.A., pursuant to art. 153 of Legislative Decree 58/1998 and to art. 2429 of the Civil Code

Shareholders,

pursuant to art. 2429 of the Civil Code and to art. 153, paragraph 1, of Legislative Decree n. 58 of 24 February 1998, we hereby inform you that during the year ended 31 December 2011, we performed the oversight duties prescribed by law, by article 148 *et seq.* of the abovementioned Legislative Decree, by the instructions provided by CONSOB communications, taking also into account the standards of conduct recommended by the Italian Association of Public Accountants and Accounting Professionals.

The above being stated, the results of the prescribed oversight duties performed during the year ended 31 December 2011 are the following:

- we attended all the Shareholders' Meetings and those of the Board of Directors and Audit Committee held during the year, overseeing compliance with the laws, bylaws and regulations governing the functioning of Company bodies, and receiving from the Directors, according to the disclosure obligations to the Board of Auditors under art. 150, paragraph 1 of Legislative Decree n. 58/1958, timely and appropriate information on activities performed and on transactions of relevance, for their size and nature, made by the Company and its subsidiaries; we also ensured that actions decided and taken by the Directors complied with the laws and 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;
- to the extent of our responsibilities, we gathered information and oversaw the appropriateness of the Company's organizational structure and compliance with the principles of proper governance, and the timely execution of instructions given to subsidiaries; all these activities were conducted through direct observation, through information gathered from the managers of the department concerned and through meetings with the Audit Firm as part of a regular exchange of important data and information with such bodies;
- to the extent of our responsibilities, pursuant to art. 19 of Legislative Decree 39/2010, we gathered information and oversaw the adequacy and effectiveness of the audit system, and the activities conducted by the manager in charge, as well as the reliability of the administrative-accounting system to properly illustrate operational events, through information received from the managers of the departments concerned, by examining company documents and the activities conducted by the Audit Firm, by attending the meetings of the Audit Committee

and the meetings with the managers charged with supervising the operations of the audit system, as well as with the Financial Reporting Manager;

- during the year, we issued our opinion as prescribed by law on the determination of compensation to managers holding strategic responsibilities (art. 2389 of the Civil Code); we verified compliance with the Group's current compensation policy and with the proposals set forth by the Compensation Committee;
- pursuant to art. 19 of Legislative Decree 39/2010, we conducted oversight duties provided therein on: a) the disclosing of financial information; b) effectiveness of the internal control, internal audit and risk management systems; c) the statutory audit of annual and consolidated financial statements; d) independence of the Audit Firm, through direct observation, information gathered from the managers of the departments concerned, and analysis of the results of the activities conducted by the Audit Firm. In such context, we took note of the quarterly audits performed by the Audit Firm to ensure that the accounts were kept on a regular basis; from the Audit Firm, we received the Reports prescribed by art. 14 and by art. 19, paragraph 3, of Legislative Decree n. 39/2010, as well as the “Annual confirmation of independence” pursuant to art. 17, paragraph 9, lett. a) of Legislative Decree n. 39/2010; pursuant to art. 17, paragraph 9, lett. a) of said Decree, we analyzed the risks regarding independence of the Audit Firm and the measures it adopted to constrain such risks;
- during the regular meetings held with the Audit Firm, pursuant to the provisions of art. 150, paragraph 3, of Legislative Decree 58/1998, no aspects emerged regarding issues within our responsibility;
- we controlled the proper functioning of the audit system on Group companies and the appropriateness of instructions given to them, pursuant also to art. 114, paragraph 2, of Legislative Decree n. 58/1998;
- we controlled the activities being undertaken to update the Organization, Management and Control Model under Legislative Decree n. 231/2001 in order to implement the recent changes in legislation on “liable offences” provided for under the Decree;
- we oversaw compliance of the Procedure for Related Party Transactions adopted by the Company through specific Regulations;
- we verified the appropriateness of information regarding transactions with related parties or intra-group companies, held in the explanatory notes to the IAS/IFRS consolidated financial statements of the Cairo Communication Group and to the IAS/IFRS separate financial statements of Cairo Communication S.p.A., considering the size and structure of the Company;
- we controlled the implementation processes of corporate governance rules prescribed by the Code of Conduct of listed companies issued by Borsa Italiana S.p.A., as adopted by the Company;

- we oversaw the disclosing of financial information and verified compliance with the laws and regulations on the preparation and layout of the separate and consolidated financial statements, as well as the documents attached thereto. Specifically, the separate 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 no. 11971 of 14 May 1999 and subsequent amendments and supplements thereto;
- we assessed appropriateness, in terms of method, of the impairment testing put in place to verify the existence of a loss in value, if any, in the booked investment in Dmail Group S.p.A.

The specific indications to provide with this Report are listed below, in accordance with the provisions of the above-mentioned CONSOB Communication of 6 April 2001 and subsequent amendments:

1. We gathered information on the transactions of equity and financial relevance made during the period, also through subsidiaries, to verify that they were made in compliance with the laws and bylaws and that they were neither imprudent or such as to jeopardize the integrity of corporate assets. We certify that, to the best of our knowledge, these transactions were based on principles of proper governance and that the issues regarding potential or possible conflicts of interest were carefully assessed.
2. We received no report of atypical and/or unusual transactions made during the year, including intra-group transactions or transactions with related parties. Intragroup transactions or transactions with related parties of an ordinary nature, as well as their main financial effects, are illustrated in the Directors' Report on Operations and in the explanatory notes to the separate and consolidated financial statements. The Board of Auditors assessed that such transactions comply with the laws and bylaws, are in keeping with the Company's interest, and are not likely to give rise to doubts regarding the accuracy and completeness of the disclosure provided in the financial statements, the existence of conflicts of interest, safeguarding of company assets and protection of minority shareholders.
3. In our view, the information provided by the Directors in their Report, pursuant to art. 2428 of the Civil Code (Report on Operations), regarding also atypical and/or unusual transactions and ordinary operations, under the previous point, is to be considered exhaustive and complete.
4. the Audit Firm, KPMG S.p.A., with which we held regular meetings during the year, assigned the task of carrying out statutory auditing, today issued the audit reports under art. 14 of Legislative Decree n. 39/2010, on the separate and consolidated financial statements as at 31 December 2011, including the audit opinion pursuant to art. 14, paragraph 2, lett. e)

of Legislative Decree n. 39/2010 and to art. 123 bis of Legislative Decree n. 58/1998. These reports do not contain any issues of note or explanatory paragraphs.

5. there were no omissions, reprehensible facts or irregularities reportable to the competent authorities or to the supervisory bodies, or worthy of mention in this Report.
6. no complaints were received pursuant to art. 2408 of the Civil Code.
7. no opinions were issued pursuant to the law.
8. During the year, the Company, in compliance with the laws, assigned KPMG S.p.A. the additional task, besides statutory auditing, of assessing and issuing an opinion on the distribution of an interim dividend, pursuant to art. 2433-bis of the Civil Code.
9. There are no reports of tasks assigned to subjects that are part of the “network” of the Audit Firm KPMG S.p.A.
10. During the year, seven meetings of the Board of Directors were held, two of the Audit Committee and five of the Board of Auditors.
The Compensation Committee met twice during 2011.
11. The Parent Company Financial Statements and the Consolidated Financial Statements are prepared in accordance with the international accounting standards (IFRS) issued by the International Accounting Standard Board (IASB) and approved by the European Union, and in accordance with the provisions issued in implementation of art. 9 of Legislative Decree no. 38/2005.

All the above being stated, the Board of Auditors declares, to the extent of its responsibilities, that there are no reasons for impeding the approval of the financial statements as at 31 December 2011, and that there are no observations on the proposal to allocate profit for the year, including the proposal for dividend distribution held in the Directors’ Report on Operations to the IAS/IFRS separate financial statements of Cairo Communication S.p.A. prepared by the Board of Directors.

Milano, 3 April 2012

Statutory Auditors

Marco Moroni (Chairman)

Marco Giuliani

Maria Pia Maspes

The following page provides a list of the positions of administration and supervision held by the members of the Board of Auditors in other companies as at the issue date of the Report (Annex pursuant to art. 144 quinquiesdecies of the Issuers' Regulations).

**ANNEX TO THE REPORT OF THE BOARD OF AUDITORS OF CAIRO COMMUNICATION SPA
DRAWN UP PURSUANT TO ART. 153 OF LEGISLATIVE DECREE 58/98**

**List of positions held in Companies as per Book V, Title V, Chapters V, VI and VII of the Civil Code,
as at the issue date of the Report
(art. 144-quinquiesdecies Consob Regulations 11971/99)**

N.	Company Name	Position	Until approval of the financial statements
Dott. Marco Moroni (Chairman of the Board of Auditors)			
1	Aerotecnica Star Spa	Statutory Auditor	31/12/2013
2	Aston & Cooper Srl	Statutory Auditor	31/12/2013
3	Betfair Italia Srl	Statutory Auditor	31/12/2012
4	Cairo Communication Spa	Chairman of the Board of Auditors	31/12/2013
5	Cairo Editore Spa	Chairman of the Board of Auditors	31/12/2013
6	Cairo Pubblicità	Chairman of the Board of Auditors	31/12/2012
7	Dataprocess Holding Spa	Statutory Auditor	31/12/2013
8	Elettrodelta S.P.A. in liquidation	Statutory Auditor	31/12/2011
9	Locauto Rent Spa	Statutory Auditor	31/12/2012
10	Locauto Spa	Statutory Auditor	31/12/2012
11	Publicitas International Spa	Statutory Auditor	31/12/2012
12	Revicom Srl	Chairman of the Board	Until revocation
13	Sony Music Entertainment Italy Spa	Statutory Auditor	31/12/2013
14	Tec Italia Srl	Chairman of the Board of Auditors	31/03/2013
15	Ut Communications Spa	Chairman of the Board of Auditors	31/12/2013
Number of positions held in issuing companies			1
Total number of positions held			15

N.	Company Name	Position	Until approval of the financial statements
Dott.ssa Maria Pia Maspes (Statutory Auditor)			
1	Cairo Pubblicità Spa	Statutory Auditor	31/12/2012
2	Caminetti Montegrappa Srl	Chairman of the Board of Auditors	31/12/2012
3	G.B.H. Spa	Statutory Auditor	31/12/2012
4	Cairo Communication Spa	Statutory Auditor	31/12/2013
5	Cairo Editore Spa	Statutory Auditor	31/12/2013
6	Ut Communications Spa	Statutory Auditor	31/12/2013
7	Alto Partners SGR Spa	Statutory Auditor	31/12/2012
8	Italholding Spa	Statutory Auditor	31/12/2012
9	Immobiliare Andronica Spa	Statutory Auditor	31/12/2011
10	Torino Fc Spa	Statutory Auditor	31/12/2013
11	Eurofly Services	Statutory Auditor	31/12/2013
12	CRE – Centro ricerche ecologiche	Statutory Auditor	31/12/2012
Number of positions held in issuing companies			1
total number of positions held			12

N.	Company Name	Position	Until approval of the financial statements
Dott. Marco Giuliani (Statutory Auditor)			
1	Banca Mediolanum Spa	Statutory Auditor	31/12/2011
2	Rothschild Italia Spa	Statutory Auditor	31/03/2013
3	Marsh Spa	Statutory Auditor	31/12/2011
4	Cairo Communication Spa	Statutory Auditor	31/12/2011
5	Orient –Express Hotels Italia Srl	Chairman of the Board of Auditors	31/12/2011
6	Yara Italia Spa	Statutory Auditor	31/12/2011
7	Banca Esperia Spa	Statutory Auditor	31/12/2011
8	Ali Spa	Statutory Auditor	31/08/2012
9	Mediolanum GESTIONI Fondi Spa	Statutory Auditor	31/12/2012
10	Hotel Cipriani Srl	Chairman of the Board of Auditors	31/12/2013

Number of positions held in issuing companies

1

Total number of positions held

10



KPMG S.p.A.
Revisione e organizzazione contabile
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(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Cairo Communication S.p.A.

- 1 We have audited the separate financial statements of Cairo Communication S.p.A. as at and for the year ended 31 December 2011, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The company's directors are responsible for the preparation of these financial statements 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. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report of other auditors dated 4 April 2011 for their opinion on the prior year separate financial statements, which included the corresponding figures presented for comparative purposes.
- 3 In our opinion, the separate financial statements of Cairo Communication S.p.A. as at and for the year ended 31 December 2011 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of Cairo Communication S.p.A. as at 31 December 2011, the results of its operations and its cash flows for the year then ended.

- 4 The directors of Cairo Communication S.p.A. are responsible for the preparation of a directors' report on the financial statements in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report and its specific section on corporate governance and ownership structure, to the extent of the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the specific section of such report are consistent with the separate financial statements of Cairo Communication S.p.A. as at and for the year ended 31 December 2011.

Milan, 3 April 2012

KPMG S.p.A.

(signed on the original)

Francesco Spadaro
Director