CAIRO COMMUNICATION

Draft Annual Financial Report at 31 December 2013

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

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

Governance

Board of Directors

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

Control and Risk Committee

Roberto Rezzonico	Director
Antonio Magnocavallo	Director
Mauro Sala	Director

Remuneration Committee

Antonio Magnocavallo	Director
Roberto Rezzonico	Director
Marco Janni	Director

Related Party Committee

Mauro Sala	Director
Roberto Rezzonico	Director
Marco Janni	Director

Board of Statutory Auditors

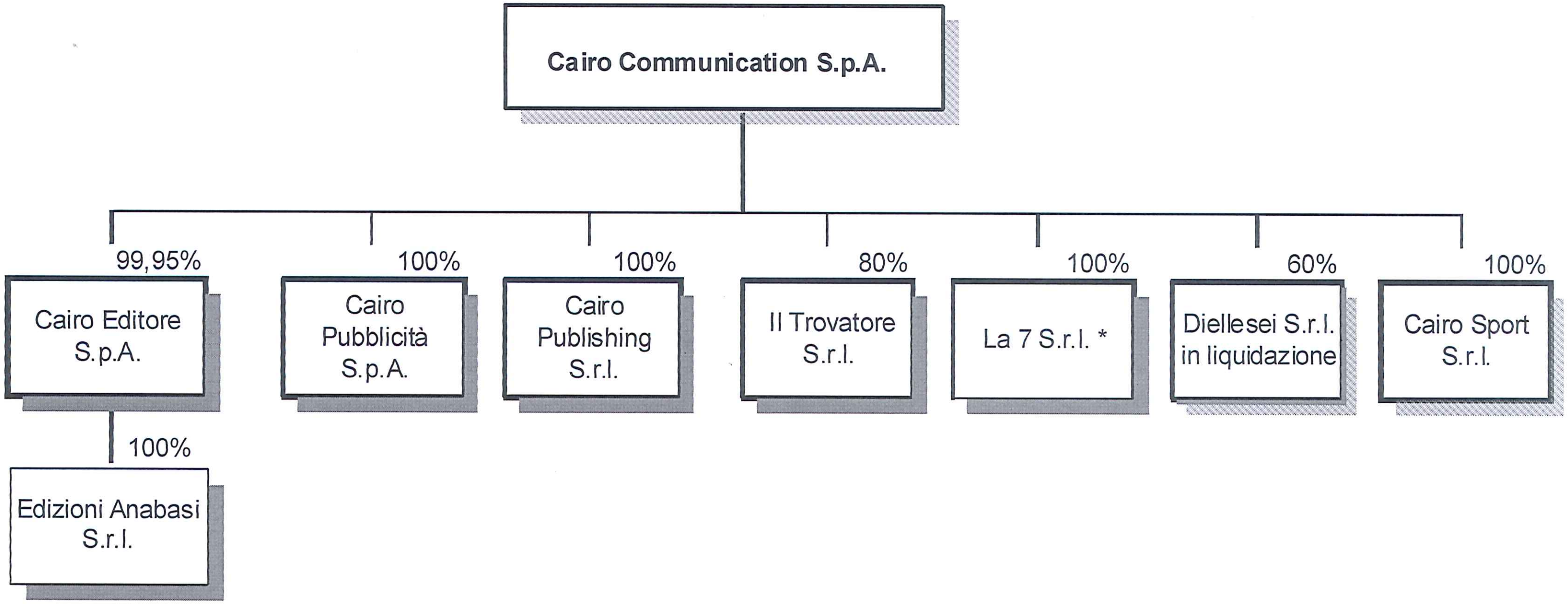
Marco Moroni	Chairman
Marco Giuliani	Standing auditor
Maria Pia Maspes	Standing auditor
Mario Danti	Alternate auditor
Enrico Tamborini	Alternate auditor

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 2013



* Effective 1 August 2013, La7 S.r.l., consolidated as from 30 April 2013, was incorporated by Cairo Due S.r.l., which concurrently changed its name to La7 S.r.l.

DIRECTORS' REPORT

Separate and consolidated financial statements at 31 December 2013

Dear Shareholders,

the separate and consolidated financial statements as at and for the year ended 31 December 2013, submitted for your approval, show, respectively, a profit of Euro 18,061 thousand and a profit attributable to the owners of the parent of Euro 74.194 thousand.

In 2013, 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 a publisher of electronic content (Il Trovatore);
- started operations in the TV (La7, La7d) and Internet publishing (La7.it, La7.tv, TG.La7.it) field, following acquisition from Telecom Italia Media S.p.A. of the entire share capital of La7 S.r.l. on 30 April 2013, with the upstream integration of its concessionaire business for the sale of television advertising space, diversifying its publishing activities previously focused on magazines.

In 2013, the general economic and financial climate, marked by a high degree of uncertainty, continued to show its negative effects, creating an increasingly complex competitive scenario. To date, there remains uncertainty over the period required for a return to normal market conditions.

Based on AC Nielsen figures, advertising investments in Italy in 2013 amounted to approximately Euro 6.4 billion, down 12.3% versus 2012.

Nielsen's analysis by media shows that in 2013:

- the magazine advertising market dropped by 23.9% versus 2012, when it had slid by 18.4% versus 2011,
- the TV advertising market fell by 10% versus 2012, when it had decreased by 15.3% versus 2011.

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

Despite this backdrop, in 2013 the Cairo Communication Group:

- continued its development strategy with the launch of "Settimanale Giallo", the weekly led by Andrea Biavardi, which was launched on 11 April with good circulation figures,
- improved the results of "Settimanale Nuovo" and "F" launched in 2012, and continued to support the high quality and circulation levels of its publications,

- worked on improving the levels of efficiency reached in containing production, publishing and distribution costs,
- achieved highly positive results, despite the contraction in advertising revenue due to the relevant market trend,
- completed the acquisition of La7 and started operations as a TV publisher.

On 30 April 2013, the Group completed the acquisition of La7 through its subsidiary Cairo Due. The financial situation of La7 called for the implementation of a restructuring plan aimed at reorganizing and streamlining the corporate structure and at curbing costs, while retaining the high quality levels of the programming schedule.

Under the agreements, the seller undertook to contribute to the realization of this project, with Telecom Italia Media's commitment, at the date of finalization of the transaction, to achieve the agreed levels of net financial position, net working capital and equity. These were essentially related (net financial position and equity) also to the headcount at the date of execution and subject (net working capital and equity) to adjustments related to advertising revenue achieved in the four months January-April.

In 2013, **on a like-for-like basis** with 2012 (print media publishing, advertising and Il Trovatore), gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 23 million and Euro 19.1 million, down versus 2012 (Euro 31.3 million and Euro 28.6 million), also due to the absence in 2013 of the "paper subsidy" of Euro 0.9 million set out in the 2011 Stability Law and recognized in 2012.

Specifically:

- looking at the **magazine publishing segment**, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 12.4 million and Euro 11.1 million (Euro 15.96 million and Euro 14.6 million in 2012, when the "paper subsidy" of Euro 0.9 million had been recognized). In the twelve months, circulation figures were basically in line with the same period of 2012. With approximately 1.8 million average weekly copies sold in 2013 the Group is the leading publisher in copies of weeklies sold at newsstands, with an approximately 25% market share. In 2013, "Settimanale Giallo" reported average sales of approximately 143 thousand copies. Total costs of approximately Euro 1 million were incurred in 2013 for its launch, which was supported by an advertising campaign also at newsstands;

- as for the **advertising segment**, gross operating profit (EBITDA) and operating profit (EBIT) dropped to Euro 10.6 million and Euro 8 million (Euro 15.4 million and Euro 14 million in 2012), due mainly to the advertising market trend. Starting from June 2013, advertising revenue began picking up pace. In 4Q13 in particular, advertising sales on La7 and La7d reached Euro 48.4 million, growing by approximately 6.5% versus 4Q12 (Euro 45.5 million), continuing the trend that had started in June, and rebounding versus the performance reported in the first five months of the year.

Considering the Group's **scope of business in its entirety**, including the results of the TV publishing segment (La7) in the May-December eight-month period of 2013, looking at **current operations** alone, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 26.7 million and Euro 21.1 million, down versus 2012 (Euro 31.3 million and Euro 28.6 million). Profit attributable to the owners of the parent came to approximately Euro 19 million (Euro 18.8 million in 2012).

Regarding the **TV publishing segment (La7)**, starting from May, the Group began to implement its own plan to restructure La7, with the aim of promptly curbing losses and of achieving a turnaround by adopting the following main guidelines:

- confirming the current editorial line and those programs that represent the main strengths of the channel,
- curbing costs, focusing in particular on "unproductive" cost items and items that exceed the cost/benefit ratio, and on recovering efficiency,
- enhancing the high quality of the La7 target audience, to maintain and develop the high level of advertising revenue against the general market backdrop.

In the May-December eight-month period of 2013, regarding **current operations**, gross operating profit (EBITDA) and operating profit (EBIT) in the TV publishing segment (La7) came to approximately Euro 3.7 million and Euro 2 million. Operating profit (EBIT) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 16.5 million due to the write-down of tangible and intangible assets made in the purchase price allocation of the investment. Net of these effects, it would have shown a negative figure of approximately Euro 14.5 million. In the April-December nine-month period of 2012, net of the impairment of goodwill and non-current assets, gross operating loss and operating loss had amounted to approximately Euro 50.5 million and Euro 73.3 million[1].

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[1] *Source: Figure estimated on the basis of segment information drawn from the interim report at 31 March 2012 and from the 2012 annual financial report of Telecom Italia Media S.p.A. available on the websites of Borsa Italiana and Telecom Italia Media.*

Specifically, in 4Q13, gross operating profit (EBITDA) and operating profit (EBIT) in the TV publishing segment (La7) came to approximately Euro 3.1 million and Euro 2.2 million, thanks to the effective rationalization and reduction of costs versus 4Q12. In 4Q12, net of the impairment of goodwill and non-current assets, gross operating loss and operating loss had amounted to approximately Euro 17.9 million and Euro 26.5 million[2]. Operating profit (EBIT) in 4Q13 benefited in the consolidated financial statements from lower amortization and depreciation of Euro 5.7 million due to valuation adjustments made in the purchase price allocation of the investment. Net of these effects, it would have shown a negative figure of Euro 3.5 million.

In 2013, La7's day share (7.00-2.00) shot up by 11.3% and by as much as 23.2% in prime time (3.85% average day share and 4.83% average prime-time share from 8:30 PM to 11:30 PM), with a high-quality target audience. La7d audience figures grew by 24.4% reaching 0.51%. The results of the channel's news and discussion programmes - such as the 8 PM newscast (7.2%), "Otto e mezzo" (6.4%), "Piazza Pulita" (5.9%), "Crozza nel Paese delle Meraviglie" (10.5%) "Servizio Pubblico" (13%), "Le invasioni Barbariche" (5%), "Coffee Break" (5.9%), and "L'aria che tira" (5.3%) – were highly positive.

Including non-recurring income and charges from the acquisition of La7, the Group's gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 24.8 million and Euro 19.2 million, while profit amounted to Euro 74.2 million, the latter due to the "non-recurring income from the acquisition of La7 S.r.l.", amounting to Euro 57.1 million, as explained further below.

PERFORMANCE

Cairo Communication Group – Consolidated figures

The main **consolidated income statement figures** in 2013 can be compared as follows with those of 2012:

[2] *Source: Figure estimated on the basis of segment information drawn from the 2012 annual financial report and the interim report at 30 September 2012 of Telecom Italia Media S.p.A available on the websites of Borsa Italiana and Telecom Italia Media.*

(€ thousands)		**31/12/2013**		**31/12/2012**
	Current operations	**Non-recurring items**	**Total**	
Gross operating revenue	276,704	-	276,704	309,150
Advertising agency discounts	(27,190)	-	(27,190)	(33,212)
Net operating revenue	**249,514**	**-**	**249,514**	**275,938**
Change in inventories	(61)	-	(61)	(38)
Other revenue and income	7,985	-	7,985	4,300
Total revenue	**257,438**	**-**	**257,438**	**280,200**
Production cost	(181,964)	(1,917)	(183,880)	(224,281)
Personnel expense	(48,789)	-	(48,789)	(24,597)
Gross operating profit (EBITDA)	**26,685**	**(1,917)**	**24,768**	**31,322**
Amortization, depreciation, provisions and impairment losses	(5,606)	-	(5,606)	(2,743)
Operating profit (EBIT)	**21,079**	**(1,917)**	**19,162**	**28,579**
Net financial income	2,901	-	2,901	1,615
Income / (loss) on investments	699	-	699	(1,461)
Non-recurring income from acquisition of La7 S.r.l.	-	57,066	57,066	-
Pre-tax profit	**24,679**	**55,149**	**79,828**	**28,733**
Income tax	(5,620)	-	(5,620)	(9,975)
Non-controlling interests	(8)	-	(8)	(1)
Profit from continuing operations attributable to the owners of the parent	**19,051**	**55,149**	**74,200**	**18,757**
Profit / (loss) from discontinued operations	(6)	-	(6)	(1)
Profit attributable to the owners of the parent	**19,045**	**55,149**	**74,194**	**18,756**

In 2013, looking at **current operations**, consolidated gross revenue amounted to approximately Euro 284.7 million (Euro 313.5 million in 2012), driven down mainly by the declining advertising market (in 2013, -10% and -23.9% the TV and magazine advertising markets versus 2012, *ACNielsen*). To assess the revenue trend, in the comparative period (2012), consolidated gross revenue had stayed basically in line with 2011 and the Group had succeeded in containing the fall in advertising revenue, specifically, TV advertising revenue (-5.5%) against the market trend (-15.3%, *ACNielsen*). The consolidation of La7 S.r.l. brought no significant change to revenue, since over 90% of La7 S.r.l. revenue is generated by advertising sales made by Cairo Communication under the existing advertising concession contract.

Consolidated gross operating profit (EBITDA) and operating profit (EBIT), amounting to approximately Euro 26.7 million and Euro 21.1 million, fell by 14.8% and 26.2% versus 2012 (Euro 31.3 million and Euro 28.6 million). Consolidated profit in the twelve months came to approximately Euro 19 million (Euro 18.8 million in 2012). Gross operating profit (EBITDA) and operating profit (EBIT) in the TV publishing segment (La7) came to approximately Euro 3.7

million and Euro 2 million. Operating profit (EBIT) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 16.5 million, due to the write-down of tangible and intangible assets made in the purchase price allocation of the investment. Net of these effects, it would have shown a negative figure of approximately Euro 14.5 million. In the April-December nine-month period of 2012, net of the impairment of goodwill and non-current assets, gross operating loss and operating loss had amounted to approximately Euro 50.5 million and Euro 73.3 million[3].

Including non-recurring income and charges from the acquisition of La7, the Group's gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 24.8 million and Euro 19.2 million. Profit came to Euro 74.2 million. Specifically, as explained in Note 10 of the consolidated financial statements at 31 December 2013, the item "non-recurring income from the acquisition of La7 S.r.l." refers to the difference between the fair value of acquired assets and liabilities assumed at the date of acquisition and the purchase price paid. Given the current financial situation of La7, this is explained, in financial terms, primarily by the future operating losses that may show in the following years before conclusion of the restructuring plan.

In the second half of 2013, in light of further information available, "non-recurring income from the acquisition of La7" - which had been recognized at 30 June for an amount of Euro 54.7 million - was retrospectively adjusted owing to (i) the price adjustment of Euro 4.8 million agreed by Cairo Communication and Telecom Italia Media and to (ii) a reduction of the amount of Euro 7.2 million of the funds initially recognized as a result of the fair value measurement of assets acquired and liabilities assumed.

It should be noted that IFRS 3 provides for a period of twelve months from the acquisition date for completion of the fair value measurement of assets acquired and liabilities assumed. Should new information emerge on facts and circumstances existing at the acquisition date, or additional assets and liabilities be identified during the evaluation period as defined by IFRS 3, the provisional amounts will be adjusted retrospectively.

Non-recurring costs from the acquisition, amounting to Euro 1.9 million, refer to fees paid during the year to advisors and to legal and financial consultants in the due diligence, negotiation and dealing stages.

[3] *Source: Figure estimated on the basis of segment information drawn from the interim report at 31 March 2012 and the 2012 annual financial report of Telecom Italia Media S.p.A available on the websites of Borsa Italiana and Telecom Italia Media.*

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

(€ thousands)	**31/12/2013**	**31/12/2012**
Consolidated statement of comprehensive income		
Profit attributable to owners of the parent	***74,194***	***18,756***
Other non-reclassifiable items of the statement of comprehensive income		
Actuarial profit (loss) from defined benefit plans	*(510)*	*128*
Tax effect	*140*	*(35)*
Total comprehensive income	***73,824***	***18,849***

The Group's performance can be read better by analyzing the 2013 results by **main business segment** (magazine publishing, advertising, TV publishing (La7) and Il Trovatore) versus those of 2012:

31/12/2013 (€ thousands)	**Magazine publishing**	**Advertising**	**TV publishing La7 (*)** **Current operations**	**Non-recurring items**	**Trovato-re**	**Unallocated operations**	**Intra-group**	**Total**
Gross operating revenue	99,063	191,681	77,019	-	485	-	(91,544)	276,704
Advertising agency discounts	-	(27,190)	-	-	-	-	-	(27,190)
Net operating revenue	**99,063**	**164,491**	**77,019**	**-**	**485**	**-**	**(91,544)**	**249,514**
Change in inventories	(61)	-	-	-	-	-	-	(61)
Other income	2,381	5,539	2,391	-	1	-	(2,327)	7,985
Total revenue	**101,383**	**170,030**	**79,410**	**-**	**486**	**-**	**(93,871)**	**257,438**
Production cost	(69,867)	(152,936)	(52,644)	(1,917)	(387)	-	93,871	(183,880)
Personnel expense	(19,117)	(6,531)	(23,107)	-	(34)	-	-	(48,789)
Gross operating profit (EBITDA)	**12,399**	**10,563**	**3,659**	**(1,917)**	**64**	**-**	**-**	**24,768**
Amortization, depreciation, provisions and impairment losses	(1,323)	(2,585)	(1,698)	-	-	-	-	(5,606)
Operating profit (EBIT)	**11,076**	**7,978**	**1,961**	**(1,917)**	**64**	**-**	**-**	**19,162**
Income / (loss) on investments	-	699		-	-	-	-	699
Net financial income	40	1,165	1,697		(1)	-	-	2,901
Non-recurring income from acquisition of La7 S.r.l.	-	-	-	57,066	-	-	-	57,066
Pre-tax profit	**11,116**	**9,842**	**3,658**	**55,149**	**63**	**-**	**-**	**79,828**
Income tax	(4,118)	(3,610)	2,131	-	(23)	-	-	(5,620)
Non-controlling interests	-	-	-	-	(8)	-	-	(8)
Profit from continuing operations attributable to the owners of the parent	**6,998**	**6,232**	**5,789**	**55,149**	**32**	**-**	**-**	**74,200**
Profit / (loss) from discontinued operations	-	-	-	-	-	**(6)**	-	(6)
Profit	**6,998**	**6,232**	**5,789**	**55,149**	**32**	**(6)**	**-**	**74,194**

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

31/12/2012 (€ thousands)	Magazine publishing	Advertising	TV publishing La7 Current operations	 Non-recurring items	Trovato-re	Unallocated operations	Intra-group	Total
Gross operating revenue	109,500	230,875	-	-	343	-	(31,568)	309,150
Advertising agency discounts	-	(33,212)	-	-	-	-	-	(33,212)
Net operating revenue	**109,500**	**197,663**	**-**	**-**	**343**	**-**	**(31,568)**	**275,938**
Change in inventories	(38)	-	-	-	-	-	-	(38)
Other income	3,729	559	-	-	12	-	-	4,300
Total revenue	**113,191**	**198,222**	**-**	**-**	**355**	**-**	**(31,568)**	**280,200**
Production cost	(78,412)	(177,115)	-	-	(322)	-	31,568	(224,281)
Personnel expense	(18,816)	(5,747)	-	-	(34)	-	-	(24,597)
Gross operating profit (EBITDA)	**15,963**	**15,360**	**-**	**-**	**(1)**	**-**	**-**	**31,322**
Amortization, depreciation, provisions and impairment losses	(1,355)	(1,403)	-	-	15	-	-	(2,743)
Operating profit (EBIT)	**14,608**	**13,957**	**-**	**-**	**14**	**-**	**-**	**28,579**
Net financial income	129	1,487	-	-	(1)	-	-	1,615
Income / (loss) on investments	-	(1,461)	-	-	-	-	-	(1,461)
Non-recurring income from acquisition of La7 S.r.l.	-	-	-	-	-	-	-	-
Pre-tax profit	**14,737**	**13,983**	**-**	**-**	**13**	**-**	**-**	**28,733**
Income tax	(4,776)	(5,193)	-	-	(6)	-	-	(9,975)
Non-controlling interests	-	-	-	-	(1)	-	-	(1)
Profit from continuing operations attributable to the owners of the parent	**9,961**	**8,790**	**-**	**-**	**6**	**-**	**-**	**18,757**
Profit / (loss) from discontinued operations	-	-	-	-	-	(1)	-	(1)
Profit	**9,961**	**8,790**	**-**	**-**	**6**	**(1)**	**-**	**18,756**

Gross operating revenue in 2013, split up by main business segment (magazine publishing, advertising, TV publishing (La7) and Il Trovatore), can be analyzed as follows versus the amounts of 2012:

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

Gross revenue (€ thousands)	31/12/2012					
	Magazine publishing	**Advertising**	**TV publishing (La7)**	**Trovatore**	**Intra-group eliminations**	**Total**
Magazine over-the-counter sales	75,621	-	-	-	-	75,621
Print media advertising	31,000	35,975	-	-	(30,750)	36,225
TV advertising	-	190,566	-	-	-	190,566
Stadium signage	-	1,996	-	-	-	1,996
Internet advertising	-	1,732	-	28	-	1,760
Revenue from concession of programming schedule spaces	-	-	-	-	-	-
Other TV revenue	-	-	-	-	-	-
Subscriptions	3,016	-	-	-	-	3,016
Books and catalogues	1,302	-	-	-	-	1,302
Other revenue	-	606	-	315	(818)	103
VAT relating to publications	(1,439)	-	-	-	-	(1,439)
Total gross operating revenue	**109,500**	**230,875**	-	**343**	**(31,568)**	**309,150**
Other revenue	3,729	559	-	12	-	4,300
Total revenue	**113,229**	**231,434**	-	**355**	**(31,568)**	**313,450**

The main figures of the **consolidated statement of financial position** at 31 December 2013 can be analyzed versus the situation at 31 December 2012:

(€ thousands)	31/12/2013	31/12/2012
Balance sheet		
Property, plant and equipment	2,829	2,942
Intangible assets	12,986	9,107
Financial assets	555	79
Deferred tax assets	4,589	4,263
Net current assets	(22,390)	(10,906)
Total assets	**(1,431)**	**5,485**
Non-current borrowings and provisions	46,814	6,365
(Net financial assets)/Net debt	(172,915)	(61,234)
Equity attributable to the owners of the parent	124,658	60,350
Equity attributable to non-controlling interests	12	4
Total equity and liabilities	**(1,431)**	**5,485**

The main changes in the statement of financial position versus the situation at 31 December 2012 are related to the consolidation of La7. At 31 December 2013, these specifically resulted in:

- an increase in non-current borrowings and provisions for risks and charges of Euro 40.3 million from post-employment benefits of approximately Euro 7.6 million and other provisions for risks and charges of Euro 32.7 million, of which Euro 21.3 million allocated upon acquisition of the investment in La7 under IFRS 3 as a result of the fair value measurement of liabilities assumed and made in the purchase price allocation of the investment,
- an increase in equity of Euro 60.8 million, due mainly to the "non-recurring income from the acquisition of La7 S.r.l.",
- an increase in the net financial position at 31 December 2013 of Euro 115.8 million,
- a decrease in net current assets at 31 December 2013 of Euro 16.6 million.

As explained in detail in Note 35, “Other information” of the consolidated financial statements at 31 December 2013, under the contract to acquire the entire share capital of La7, for a period of 24 months following acquisition, Cairo Communication undertakes to use the financial resources resulting from the contribution received from Telecom Italia Media in the exclusive interest of La7 and to restructure the company, and to not distribute dividends or reserves of La7.

In 2013, as part of the share buy-back plans, 450,000 treasury shares were sold. At 31 December 2013, Cairo Communication held a total of n. 779 treasury shares, or 0.001% of the share capital, subject to art. 2357-ter of the Italian Civil Code.

The consolidated **net financial position** at 31 December 2013, versus the situation at 31 December 2012, can be summarized as follows:

(€ thousands)	**31/12/2013**	**31/12/2012**	**Change**
Cash and cash equivalents	172,915	61,234	111,681
Current financial assets	-	-	-
Total	**172,915**	**61,234**	**111,681**

The positive change in the net financial position of Euro 111.7 million is due mainly to the acquisition of La7 S.r.l. which, at the acquisition date (30 April 2013), resulted in an increase in cash of Euro 114 million, which is the difference between net cash acquired (Euro 115 million) and the purchase price paid (Euro 1 million). In October 2013, the seller concluded the assessment of the financial position of La7 at the effective date of disposal to the Cairo Communication Group. Following the assessment, given that the equity of La7 recognized at that date exceeded the contractual amount, Telecom Italia Media and Cairo Communication agreed on payment by the Cairo Communication Group of Euro 4.8 million to Telecom Italia Media as a price adjustment. The amount was paid on 7 November 2013. At 31 December 2013, the net financial position of La7 was Euro 115.8 million.

Mention must be made of the coupon detachment on 13 May 2013 and the distribution of the balance of the dividend, amounting to Euro 0.14 per share for a total of Euro 10.9 million, under the resolution adopted by the Shareholders' Meeting on 29 April 2013.

To analyze the major financial indicators, the asset structure at 31 December 2013 can be examined using a reclassified statement showing increasing liquidity/settlement:

(€ thousands)	31/12/2013	31/12/2012
Non-current assets		
Property, plant and equipment and intangible assets	15,815	12,049
Financial assets	555	79
Deferred tax assets	4,589	4,263
Total non-current assets	**20,959**	**16,391**
Current assets		
Inventories	4,104	3,857
Trade receivables (unavailable liquid funds)	90,065	90,381
Other unavailable liquid funds	13,952	12,876
Total current operations assets	**108,121**	**107,114**
Available liquid funds	172,915	61,234
Total current assets	**281,036**	**168,348**
Invested capital	**301,995**	**184,739**

Equity	**124,670**	**60,354**
Consolidated liabilities		
Post-employment benefits and provisions for risks and charges	46,814	6,365
Total consolidated liabilities	**46,814**	**6,365**
Current liabilities		
Current operating liabilities	130,511	118,020
Total current liabilities	**130,511**	**118,020**
Financing capital	**301,995**	**184,739**
Profit	74,194	18,663
Operating profit (EBIT)	19,162	28,320
Sales	249,514	275,938

An analysis of the financial position of the Group using the main financial indicators indicates that the Cairo Communication Group is suitably capitalized to maintain financial equilibrium in the medium/long term and has a very sound equity position as it has significant cash resources, and generates positive results in its traditional segments, and can finance its current operations even within the dynamics of its current assets. Regarding the TV publishing segment, in 2014 the Group will continue with its plan to restructure the company, with the aim of strengthening the results of the cost-rationalization measures adopted in the first eight months of activity, and of achieving a turnaround.

(€ thousands)	Description	31/12/2013	31/12/2012
Solvency indicators			
Current assets less current liabilities margin	Current assets-current liabilities	150,525	50,328
Current assets less current liabilities ratio	Current assets /current liabilities	2.15	1.43
Treasury margin	(Unavailable liquid funds + available liquid funds)-current liabilities	146,421	46,671
Treasury ratio	(Unavailable liquid funds + available liquid funds)/current liabilities and	2.12	1.39
Non-current asset financing indicators			
Own funds less fixed assets margin	Own funds – non-current assets	103,711	43,963
Own funds less fixed assets ratio	Equity /non-current assets	5.9	3.7
Own funds plus non-current liabilities less non-current assets margin	(Own funds+ non-current liabilities) – non-current assets	150,525	50,328
Own funds plus non-current liabilities less non-current assets ratio	(Own funds+ non-current liabilities)/ non-current assets	8.2	4.1
Financing structure indicators			
Total debt ratio	(non-current + current liab.)/Own funds	1.4	2.1
Financing debt ratio	Third-party funds/Own funds	-	-
Current operating assets - current operating liabilities		(22,390)	(10,906)
Profitability indicators			
ROE	Profit /Own funds	59.5%	30.9%
ROE current operations	Profit curr. op./Own funds	59.5%	30.9%
ROI	Operating profit / (Inv. op. capital – op. liabilities)	11.2%	42.4%
ROI current operations	Operating profit current operations/ (Inv. op. capital – op. liabilities)	11.2%	42.4%
Other indicators			
Receivables turnover		110	100

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

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

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

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

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

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

Performance for weeklies and monthlies may be analyzed as follows.

Weeklies	**Dipiu'**	**Diva & donna**	**Dipiu' TV**	**Dipiu' TV Cucina**	**Nuovo**	**F**	**TV Mia**
ADS average 2013	564,034	205,236	360,563	172,333	231,613	140,250	154,633
ADS average 2012 Company figure	588,875	200,982	393,781	363,754	284,702	181,107	167,511

Monthlies	**For Men Magazine**	**Natural Style**	**Bell'Italia**	**Bell'Euro-pa**	**In Viaggio**	**Airone**	**Gardenia**
ADS average 2013	62,962	60,443	52,303	25,860	27,312	63,067	59,275
ADS average 2012 Company figure	80,378	78,395	56,697	31,355	32,575	77,733	63,099

These figures show how circulation managed to hold ground, despite the tough market in 2013.

In 2013, La7 was the only generalist TV to boast audience figures higher than those in 2012. La7's day share (7.00-2.00) shot up by 11.3% and by as much as 23.2% in prime time (3.85% average day share and 4.83% average prime-time share from 8:30 PM to 11:30 PM), with a high-quality target audience. Both La7 and La7d reached an average all-day share (07.00-02.00) of 4.36%, the best result ever.

The results of the channel's news and discussion programmes - such as the 8 PM newscast (7.2%), "Otto e mezzo" (6.4%), "Piazza Pulita" (5.9%), "Crozza nel Paese delle Meraviglie"

(10.5%), “Servizio Pubblico” (13%), “Le invasioni Barbariche” (5%), “Coffee Break” (5.9%) and “L’aria che tira” (5.3%) - were highly positive.

Cairo Communication S.p.A. – Parent performance

The main **income statement figures of Cairo Communication S.p.A.** in 2013 can be compared as follows versus those in 2012:

(€ thousands)	31/12/2013	31/12/2012
Gross operating revenue	121,047	137,099
Advertising agency discounts	-	-
Net operating revenue	**121,047**	**137,099**
Other revenue and income	1,217	133
Total revenue	**122,264**	**137,232**
Production cost	(112,475)	(125,246)
Personnel expense	(2,844)	(2,750)
Gross operating profit (EBITDA)	**6,945**	**9,236**
Amortization, depreciation, provisions and impairment losses	(272)	(213)
Operating profit (EBIT)	**6,673**	**9,023**
Net financial income	1,016	1,284
Income (loss) on investments	13,174	14,241
Pre-tax profit	**20,863**	**24,548**
Income tax	(2,797)	(3,486)
Profit from continuing operations	**18,066**	**21,062**
Loss from discontinued operations	(5)	-
Profit	**18,061**	**21,062**

In 2013, 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. Specifically, in 2013:

- gross operating revenue was approximately Euro 122.3 million (Euro 137.2 million in 2012);
- gross operating profit (EBITDA) of the parent was approximately Euro 7 million (Euro 9.2 million in 2012);
- operating profit (EBIT) was approximately Euro 6.7 million (Euro 9 million in 2012);
- profit was approximately Euro 18.1 million (Euro 21.1 million in 2012).

“Income (loss) on investments” mainly consists of:

- dividends approved by the subsidiaries Cairo Pubblicità and Cairo Editore, amounting respectively to Euro 3.4 million and Euro 9.7 million (in 2012, the item included dividends approved by Cairo Pubblicità and Cairo Editore, amounting respectively to Euro 4.7 million and Euro 11 million);
- the gains from the disposal of Dmail Group shares, equal to Euro 377 thousand,
- the fair value adjustment of the investment held in Cairo Publishing S.r.l., amounting to Euro 0.3 million.

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

(€ thousands)	31/12/2013	31/12/2012
Statement of comprehensive income of the Parent		
Profit	18,061	21,062
Other non-reclassifiable items in the statement of comprehensive income		
Actuarial profit (loss) from defined benefit plans	(97)	-
Tax effect	27	-
Total comprehensive income	**17,991**	**21,062**

The main **statement of financial position figures** of Cairo Communication S.p.A. at 31 December 2013 can be compared with the situation at 31 December 2012:

(€ thousands)	31/12/2013	31/12/2012
Balance sheet		
Property, plant and equipment	549	520
Intangible assets	356	159
Financial assets	17,614	14,032
Other non-current assets	13	399
Net current assets	14,961	(160)
Total assets	**33,493**	**14,950**
Non-current borrowings and provisions	1,346	1,008
(Net financial position)/Net debt	(35,690)	(45,426)
Equity	67,837	59,368
Total equity and liabilities	**33,493**	**14,950**

As mentioned in the notes to the figures of the consolidated statement of financial position, following the coupon detachment on 13 May, the balance of the dividend, amounting to Euro 0.14 per share for a total of Euro 10.9 million, was distributed under the resolution adopted by the Shareholders' Meeting on 29 April 2013.

The **net financial position** of the Parent at 31 December 2013, versus the situation at 31 December 2012, is summarized as follows:

(€ thousands)	31/12/2013	31/12/2012	Change
Cash and cash equivalents	35,690	45,426	(9,736)
Current financial assets	-	-	-
Total	**35,690**	**45,426**	**(9,736)**

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.	**67,837**	**18,061**
Elimination of the carrying amount of consolidated equity investments:		
Difference between carrying amount of investments and their equity value	126,874	
Other effects of the purchase price allocation of La7 S.r.l.	(57,976)	16,537
Non-recurring income and charges associated with the acquisition of La7 S.r.l.		55,148
Share in subsidiaries' profit net of investment impairment losses		(2,568)
Allocation of excess consideration paid:		
Goodwill	7,198	
Elimination of intra-group profits net of income tax	(19,275)	180
Elimination of intra-group dividends		(13,156)
Consolidated financial statements of Cairo Communication	**124,658**	**74,202**

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

PUBLISHING

CAIRO EDITORE - CAIRO PUBLISHING

The results achieved by **Publishing** in 2013 can be analyzed as follows:

Publishing (€ thousands)	**31 December 2013**	**31 December 2012**
Gross operating revenue	99,063	109,500
Advertising agency discounts	-	-
Net operating revenue	**99,063**	**109,500**
Other income	2,381	3,729
Change in inventories	(61)	(38)
Total revenue	**101,383**	**113,191**
Production cost	(69,867)	(78,412)
Personnel expense	(19,117)	(18,993)
Gross operating profit (EBITDA)	**12,399**	**15,786**
Amortization, depreciation, provisions and impairment losses	(1,323)	(1,355)
Operating profit (EBIT)	**11,076**	**14,431**
Income (loss) on investments	-	-
Net financial income	40	205
Pre-tax profit	**11,116**	**14,636**
Income tax	(4,118)	(4,749)
Non-controlling interests	-	-
Profit from continuing operations attributable to the owners of the parent	**6,998**	**9,887**
Profit/ (loss) from discontinued operations	-	-
Profit	**6,998**	**9,887**

As mentioned earlier, in 2013 Cairo Editore strengthened the results of its titles and continued with its strategy of development through the study, planning and launch of new publications, with "Settimanale Giallo", led by Andrea Biavardi, on newsstands since 11 April 2013. In 2013, "Settimanale Giallo" reported average sales of approximately 143 thousand copies. Total costs of approximately Euro 1 million were incurred in 2013 for its launch, which was supported by an advertising campaign also at newsstands.

Looking at revenue, in 2013:

- circulation revenue from Group publications, amounting to Euro 74.8 million, was basically in line with 2012 (Euro 75.6 million),

- Group gross advertising revenue, which reached Euro 28.3 million, dropped by 19.7% versus 2012 (*ACNielsen*, -23.9% the magazine advertising market in 2013).

In 2013, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 12.4 million and Euro 11.1 million (Euro 15.96 million and Euro 14.6 million in 2012), also due to the absence in 2013 of the “paper subsidy” of Euro 0.9 million set out in the 2011 Stability Law as “aid to the publishing industry” and recognized in 2012.

The twelve months under review confirmed the high levels of efficiency achieved in previous periods to curb production, publishing and distribution costs.

“Settimanale DIPIU”, with an average ADS annual circulation in 2013 of 564,034 copies, “DIPIU’ TV” (360,563 copies), “Settimanale DIPIU’ e DIPIU’TV Cucina” (172,333 copies), “Diva e Donna” (205,236 copies), “Settimanale Nuovo” (231,613 copies), “F” (140,250 copies) and “TVMia” (154,633 copies) confirmed the outstanding sales results achieved by the Group’s weeklies. Taking also “Settimanale Giallo” into account (105,165 copies), average sales of the Group’s weeklies reached a total of approximately 1.8 million, making the Group the leading publisher in copies of weeklies sold at newsstands, with an approximately 25% market share.

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

- cover prices of the weeklies are lower, some half the price of those of the main competitors; this gap increases appeal and allows space for potential price increases, hence for increased profitability;

- sales are mostly over-the-counter (95%), with a minimum impact of revenue generated by gifts and sundry editorial material (approximately 2% on total publishing revenue, including advertising), whose sales figures have collapsed in the publishing segment; the Group has opted to focus on the quality of its publications; in 2013 gross advertising revenue generated by the Group’s publications accounted for 27% - an extremely low figure if compared with the revenue breakdown of other major publishing groups, therefore based to a lesser extent on the economic cycle - while 73% came from direct sales and subscriptions, proof of the high editorial quality of publications;

- weekly magazines, which account for approximately 90% of total publishing sales revenue, are sold as single copies and not bundled with other weeklies and/or dailies to bolster sales;

- the remarkable sales volumes achieved, both in absolute terms and versus Cairo Editore’s competitors, make the advertising pages highly appealing in terms of advertising cost per copy sold (equal to the difference between the price of the advertising page and copies sold), currently lower than the publications of its competitors.

In 2013, Cairo Editore continued to pursue opportunities to optimize production, publishing and distribution costs, achieved mainly through:

- the negotiation for the reduction of paper costs and costs for external printing and binding work, by also leveraging on the opportunities offered by technology,
- optimization of bordereau costs,
- reduction in promotional costs related in 2012 also to the launch and subsequent advertising campaign for “Settimanale Nuovo” and for the women's weekly “F”.

Attached to the notes to the separate financial statements of the parent is a summary of the key figures of the draft financial statements of subsidiaries at 31 December 2013.

ADVERTISING

Looking at the advertising segment, in 2013 the Cairo Communication Group continued to operate as advertising broker – with subsidiary Cairo Pubblicità - selling space in the print media for Cairo Editore (“For Men Magazine”, “Natural Style”, “Settimanale DIPIU’”, “DIPIU’ TV” and weekly supplements “Settimanale DIPIU’ e DIPIU’TV Cucina” and “Settimanale DIPIU’ e DIPIU’TV Stellare”, “Diva e Donna”, “TV Mia”, “Settimanale Nuovo”, “F” and “Settimanale Giallo”), the Editoriale Giorgio Mondadori division (“Bell’Italia”, “Bell’Europa”, “In Viaggio”, “Airone”, “Gardenia”, “Arte” and “Antiquariato”) and for Editoriale Genesis (“Prima Comunicazione” and “Uomini e Comunicazione”), for the sale of advertising space on TV for La7 and La7d, and for Turner Broadcasting (Cartoon Network, Boomerang, CNN), on the Internet mainly for Turner Broadcasting (Cartoon Network.it, Cnn.com) and for the sale of stadium signage and space at the Olimpico in Turin for Torino FC.

The results achieved by **Advertising** in 2013 can be analyzed as follows:

Advertising (€ thousands)	**31 December 2013**	**31 December 2012**
Gross operating revenue	191,681	230,875
Advertising agency discounts	(27,190)	(33,212)
Net operating revenue	**164,491**	**197,663**
Other income	5,539	559
Change in inventories	-	-
Total revenue	**170,030**	**198,222**
Production cost	(152,936)	(177,115)
Personal expense	(6,531)	(5,829)
Gross operating profit (EBITDA)	**10,563**	**15,278**
Amortization, depreciation, provisions and impairment losses	(2,585)	(1,403)
Operating profit (EBIT)	**7,978**	**13,875**
Income (loss) on investments	699	(1,461)
Net financial income	1,165	1,542
Pre-tax profit	**9,842**	**13,956**
Income tax	(3,610)	(5,185)
Non-controlling interests	-	-
Profit from continuing operations	**6,232**	**8,771**
Profit (loss) from discontinued operations	-	-
Profit attributable to the owners of the parent	**6,232**	**8,771**

In 2013, advertising sales in this segment, amounting to Euro 191.7 million, dropped versus 2012 (Euro 230.9 million). To assess the revenue trend, in the comparative period (2012), consolidated gross revenue had stayed basically in line with 2011 and the Group had succeeded in slowing the fall in TV advertising revenue (-5.5%) versus the market trend (-15.3%, *ACNielsen*).

Furthermore, in April 2013, effective as from 30 April, the advertising sales concession contract on Sportitalia channels was terminated by mutual consent. In the May-December eight-month period of 2012, it had generated gross advertising revenue of approximately Euro 6 million.

Gross operating profit (EBITDA) and operating profit (EBIT) in the advertising segment came to Euro 10.6 million and Euro 8 million (Euro 15.3 million and Euro 13.9 million in 2012).

Starting from June 2013, TV advertising revenue began picking up pace, driven by the recovery of the market and the strong growth in La7's audience figures.

In 4Q13 in particular, advertising sales on La7 and La7d reached Euro 48.4 million, growing by approximately 6.5% versus 4Q12 (Euro 45.5 million), continuing the trend that had started in June, and rebounding versus the performance reported in the first five months of the year.

At 11 March 2014, the order book for advertising aired and to be aired on La7 and La7d in the first quarter January-March 2014, amounting to Euro 38.6 million, is up by approximately 4%

compared to last year's order book for same period at the same date and has already exceeded the total revenues of the first quarter January-March 2013, amounting to Euro 38.1 million.

TV PUBLISHING (La7)

The results of TV publishing, referring to the eight months from 1 May 2013 to 31 December 2013, can be analyzed as follows:

31/12/2013 (€ thousands)	**TV publishing La7 (*)** Current operations	Non-recurring items	**Total**
Gross operating revenue	77,019	-	77,019
Advertising agency discounts	-	-	-
Net operating revenue	**77,019**	**-**	**77,019**
Change in inventories	-	-	-
Other income	2,391	-	2,391
Total revenue	**79,410**	**-**	**79,410**
Production cost	(52,644)	(1,917)	(54,561)
Personnel expense	(23,107)	-	(23,107)
Gross operating profit	**3,659**	**(1,917)**	**1,742**
Amortization, depreciation, provisions and impairment losses	(1,698)	-	(1,698)
Operating profit	**1,961**	**(1,917)**	**44**
Income / (loss) on investments	-	-	-
Net financial income	1,697		1,697
Non-recurring income from acquisition of La7 S.r.l.	-	57,066	57,066
Pre-tax profit	**3,658**	**55,149**	**58,807**
Income tax	2,131	-	2,131
Non-controlling interests	-	-	-
Profit from continuing operations attributable to the owners of the parent	**5,789**	**55,149**	**60,938**
Profit / (loss) from discontinued operations	-	-	-
Profit	**5,789**	**55,149**	**60,938**

As mentioned earlier, in 2013 the Group started operations in the TV publishing field with the acquisition from Telecom Italia Media S.p.A. of the entire share capital of La7 S.r.l. as from 30 April 2013. The financial situation of La7 called for the implementation of a restructuring plan aimed at reorganizing and streamlining the corporate structure and at curbing costs, while retaining the high quality levels of the programming schedule.

Under the agreements, the seller undertook to contribute to the realization of this project, with Telecom Italia Media's commitment, at the date of finalization of the transaction, to achieve the agreed levels of net financial position, net working capital and equity.

In the May-December eight-month period of 2013, La7 **current operations**, which generated a positive gross operating profit (EBITDA) of Euro 3.7 million, saw no cash absorption. Starting from May 2013, the Group began to implement its own plan to restructure La7, by adopting the following main guidelines:

- confirming the current editorial line and those programs that represent the main strengths of the channel,
- curbing costs, focusing in particular on "unproductive" cost items and items that exceed the cost/benefit ratio, and on recovering efficiency,
- enhancing the high quality of the La7 target audience, to maintain and develop the high level of advertising revenue against the general market backdrop.

Looking at current operations:

- in the May-December eight-month period of 2013, looking at current operations alone, gross operating profit (EBITDA) and operating profit (EBIT) in the TV publishing segment (La7) came to approximately Euro 3.7 million and Euro 2 million. Operating profit (EBIT) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 16.5 million, due to the write-down of tangible and intangible assets made in the purchase price allocation of the investment. Net of these effects, it would have shown a negative figure of approximately Euro 14.5 million, strongly improving versus 2012 when in the April-December nine-month period, gross operating loss and operating loss had amounted to approximately Euro 50.5 million and Euro 73.3 million[4].
- specifically, in 4Q13 gross operating profit (EBITDA) and operating profit (EBIT) in the TV publishing segment (La7) came to approximately Euro 3.1 million and Euro 2.2 million, thanks to the effective rationalization and reduction of costs versus 4Q12, when gross operating loss and operating loss had amounted to 17.9 million and Euro 26.5 million[5]. Operating profit (EBIT) in 4Q13 benefited in the consolidated financial statements from lower amortization and depreciation of Euro 5.7 million due to valuation adjustments made in the purchase price allocation of the investment. Net of these effects, it would have shown a negative figure of Euro 3.5 million.

[4] *Source: Figure estimated on the basis of segment information drawn from the interim report at 31 March 2012 and from the 2012 annual financial report of Telecom Italia Media S.p.A. available on the websites of Borsa Italiana and Telecom Italia Media.*

[5] *Source: Figure estimated on the basis of segment information drawn from the 2012 annual financial report and from the interim report at 30 September 2012 of Telecom Italia Media S.p.A. available on the websites of Borsa Italiana and Telecom Italia Media.*

The results of the TV publishing segment in 4Q13 can be analyzed as follows:

(€ thousands)	31/12/2013 (Three months)	31/12/2012 (Three months)
Gross operating revenue	35,509	34,602
Advertising agency discounts	-	-
Net operating revenue	**35,509**	**34,602**
Change in inventories		-
Other income	1,883	442
Total revenue	**37,392**	**35,044**
Production cost	(25,559)	(42,402)
Personnel expense	(8,736)	(10,586)
Gross operating profit	**3,097**	**(17,944)**
Amortization, depreciation, provisions and impairment losses	(901)	(8,586)
Operating profit	**2,196**	**(26,530)**

In 2013, La7 was the only generalist TV to boast audience figures higher than those in 2012. La7's day share (7.00-2.00) shot up by 11.3% and by as much as 23.2% in prime time (3.85% average day share and 4.83% average prime-time share from 8:30 PM to 11:30 PM), with a high-quality target audience. Both La7 and La7d reached an average all-day (07,00-02,00) share of 4.36%, the best result ever.

The results of the channel's news and discussion programmes - such as the 8 PM newscast (7.2%), "Otto e mezzo" (6.4%), "Piazza Pulita" (5.9%), "Crozza nel Paese delle Meraviglie" (10.5%), "Servizio Pubblico" (13%), "Le invasioni Barbariche" (5%), "Coffee Break" (5.9%) and "L'aria che tira" (5.3%) - were highly positive.

In 2014, the Group will continue with its plan to restructure the company, with the aim of strengthening the results of the cost-rationalization measures adopted in the first eight months of activity, and of continuing to pursue the turnaround.

IL TROVATORE

In 2013, 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**: <u>Profit from continuing operations, pre tax</u>**

+/- Net finance income

+/- Share in associates

EBIT- Operating profit

+ Amortization & depreciation

+ Bad debt impairment losses

+ Provisions for risks

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

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

Transactions with parents, subsidiaries and associates

In 2013, transactions with related parties, including with Group companies, were not considered to be atypical or unusual, and were part of the ordinary activities of Group companies. These transactions were carried out on market terms, taking account of the goods and services provided.

Information on transactions with related parties is disclosed in <u>Note 36</u> to the consolidated financial statements and in <u>Note 28</u> of the separate financial statements.

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

The acquisition of La7 has allowed the Group to integrate upstream its concessionaire business for the sale of television advertising space, and to diversify its publishing activities previously focused on magazines. In 2013, “risks associated with the importance of the advertising concession contracts with third-party publishers” and "risks associated with contractual commitments", appearing in the 2012 Annual Financial Report, were great reduced.

Risks associated with the general economic climate

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

In 2013, the general economic and financial climate, marked by a high degree of uncertainty, continued to show its negative effects, creating an increasingly complex competitive scenario. To date, there remains uncertainty over the period required for a return to normal market conditions. Should this situation of uncertainty continue for some time, the operations, strategy and outlook for the Group may be impacted.

To challenge the tough market scenario, the Group implemented, starting in previous periods, and also in 2013, a series of measures to increase efficiency and effectiveness of the production, publishing and distribution processes, and will continue in 2014 to benefit from the high levels of efficiency achieved.

Regarding the TV publishing segment (La7), also in order to tackle the challenging market climate, from May 2013 the Group began adopting a series of effective measures which aim to rationalize and reduce costs versus the previous year.

Risks associated with advertising and publishing market trends

In 2013, deterioration of the short and medium-term economic uncertainty impacted negatively on the advertising market.

Based on AC Nielsen figures, in 2013 advertising investments in Italy amounted to approximately Euro 6.4 billion, down 12.3% versus 2012 (specifically, -23.9% the magazine advertising market and -10% the TV advertising market versus 2012). The Cairo Communication Group holds approximately 4.6% of the TV advertising market (4.9% in 2012) and approximately 5.5% of the magazine advertising market (5.6% in 2012). This market share leaves the Group room enough for growth, given the high quality and significant distribution of its own titles, in particular weeklies, and of the TV resources (own and under concession), quality, circulation and audience ratings that provide significant competitive edge.

The economic climate has slowed the pace of the sale of dailies and magazines. Against this challenging backdrop, in 2013 sales revenue from Group publications, amounting to Euro 74.8 million, was basically in line with 2012 figures (Euro 75.6 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.

The consolidation of La7 S.r.l. brought no significant change to revenue, since over 90% of La7 S.r.l. revenue is generated by advertising sales made by Cairo Communication under the existing advertising concession contract. Advertising sales are currently the main source of revenue for the TV publishing segment.

Advertising sales today represent approximately 69% (approximately 74% in 2012) of total Group revenue. Considering also advertising revenue directly generated by La7 (approximately Euro 4 million), the impact of advertising revenue increases to 71%.

Considering the Group’s publishing business alone, advertising revenue in 2013 accounted for 27% - much lower than the revenue breakdown of other major publishing groups - while the remaining 73% was generated by distribution and subscription revenue, demonstrating the great publishing strength of advertising products.

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

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

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

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

- *Distribution*

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

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

<u>Risks associated with extraordinary transactions</u>

As mentioned earlier, in 2013 Cairo Communication S.p.A. acquired from Telecom Italia Media, through Cairo Due S.r.l., the entire share capital of La7 S.r.l.

The financial situation of La7 called for the implementation of a restructuring plan aimed at reorganizing and streamlining the corporate structure and at curbing costs, while retaining the high quality levels of the programming schedule. In 2012, excluding the impairment of goodwill and non-current assets, La7 reported a pro forma operating loss (EBIT) of approximately Euro 96 million[6].

6 From the 2012 annual financial report of Telecom Italia Media, available on Borsa Italiana and Telecom Italia Media websites.

Under the agreements, the seller undertook to contribute to the realization of this project, with Telecom Italia Media's commitment, at the date of finalization of the transaction, to achieve the agreed levels of net financial position, net working capital and equity.

In the May-December eight-month period of 2013, La7 current operations, which generated a positive gross operating profit (EBITDA) of Euro 3.7 million, saw no cash absorption. Starting from May 2013, the Group began to implement its own plan to restructure La7, by adopting the following main guidelines:

- confirming the current editorial line and those programs that represent the main strengths of the channel,
- curbing costs, focusing in particular on "unproductive" cost items and items that exceed the cost/benefit ratio, and on recovering efficiency,
- enhancing the high quality of the La7 target audience, to maintain and develop the high level of advertising revenue against the general market backdrop.

In 2014, the Group will continue with its plan to restructure the company, with the aim of strengthening the results of the cost-rationalization measures adopted in the first eight months of activity, and of continuing to pursue the turnaround.

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

<u>Risks associated with developments in the media segment</u>

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

Whereas the development of the Internet may impact on the share of print media, mainly on dailies and to a much lesser extent on our weeklies, the growth of the Internet and of digital theme television may impact on the generalist 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 Management and “key staff”

The Group’s success depends on the talents of its executive Directors and other members of Management to efficiently manage the Group and the individual business segments. Editors and TV personalities, too, have a significant role in the titles published and programmes hosted.

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

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

The Cairo Communication Group publishes a number of highly successful Italian weeklies, “Settimanale Dipiù” (564,034 copies), “DipiùTV” (360,563 copies), “Settimanale Dipiù e DipiùTV Cucina” (172,333 copies), “TVMia” (154,633 copies) “Diva & Donna” (205,236 copies), “Settimanale Nuovo” (231,613 copies), “F” (140,250 copies) and “Settimanale Giallo” (105,165). Among the monthlies, “Gardenia”, “Bell’Italia”, “For Men Magazine”, “Natural Style” and “Arte” are leaders in their own segment.

The results of La7’s news and discussion programmes in terms of audience ratings - specifically the 8 PM newscast (7.2%), “Otto e mezzo” (6.4%), “Piazza Pulita” (5.9%), “Crozza nel Paese delle Meraviglie” (10.5%) “Servizio Pubblico” (13%), “Le invasioni Barbariche” (5%), “Coffee Break” (5.9%), and “L’aria che tira” (5.3%) – were highly positive.

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

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

Risks associated with business with suppliers

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

Risks associated with legal and regulatory developments

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

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

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

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

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 172.9 million, while on the other hand, the Group attempts to ensure, in its traditional segments, that an appropriate ability to generate cash is maintained, despite current market conditions.

Regarding the TV publishing segment, in 2014 the Group will continue with its plan to restructure the company, with the aim of strengthening the results of the cost-rationalization measures adopted in the first eight months of activity, and of achieving a turnaround.

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, while on the other hand, Group operations are carried out exclusively in Italy, so all revenue is generated in Italy and main costs are incurred in Euro.

Interest rate risk only affects the yield on available cash.

Movements in the cash 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 risks

The Group is exposed to credit risk, primarily in relation to its advertising sales activities. This risk is however mitigated by the fact that exposure is distributed across a large number of customers and that credit monitoring and control procedures are in place. In terms of concentration, the top 10 customers account for about 15% (14% in 2012) of advertising revenue, while the top 100 customers account for about 58% (58% in 2012).

Persisting short and medium-term economic uncertainty factors, along with the resulting credit squeeze, may however impact negatively on the quality of credit and on general payment terms.

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

The Group's maximum theoretical exposure to credit risks at 31 December 2013 is given by the carrying amount of trade receivables and other recognized receivables totaling Euro 103.7 million (103.3 million at 31 December 2012), and by the nominal amount of guarantees furnished on third-party debts or commitments as indicated in Note 35.

The credit risks associated with cash and cash equivalents, with a maximum theoretical exposure of Euro 172.9 million (Euro 61.2 million at 31 December 2012), are not considered significant as they are deposits spread across various banks.

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

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

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

The duties and methods of operating of these corporate bodies are governed by the law and regulations, by the company bylaws and by the decisions adopted by relevant bodies, in conformity with the regulations set forth in the Corporate Governance Code drawn up by the Corporate Governance Committee of Borsa Italiana S.p.A. in December 2011.

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

2 Information on ownership structure (pursuant to art. 123 bis, paragraph 1 of the Consolidated Finance Act – TUF) at 11 March 2014

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.)

At 11 March 2014, the share capital of Cairo Communication S.p.A. was Euro 4,073,856.80, fully paid and subscribed, and it comprised 78,343,400 shares, with no indication of the nominal amount.

	N° shares	**% of share capital**	**Listed**	**Rights and obligations**
Ordinary shares	78,343,400	100%	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 subject to the provisions of representation, legitimization, circulation of the company investment required for securities traded on regulated markets.

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

At 11 March 2014, 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%

At the same date, Cairo Communication S.p.A. held a total of n. 779 treasury shares, or 0.001% of the share capital, subject to the provisions of art. 2357-ter of the Italian Civil Code.

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

No securities carrying special controlling rights have been issued.

e) 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 Italian Civil Code or to issue equity financial instruments.

At their meeting on 26 April 2013, after revoking a similar resolution adopted on 26 April 2012, the Shareholders approved the proposal to acquire and dispose of treasury shares in accordance with art. 2357 and subsequent articles of the Italian Civil Code, for the purpose of stabilizing the Company share price and sustaining liquidity, and, if deemed necessary by the Board of Directors, through an independent intermediary, of establishing a "shares stock" as provided in Consob regulation 16839/2009. The Board was authorized to acquire treasury shares up to the maximum number permitted by law, for a period of 18 months from the date of authorization, by use of available reserves, including the share premium reserve, as resulting from the last approved annual financial statements. Specifically, the Board of Directors will be authorized to acquire treasury shares on one or more occasions, acquiring shares directly on the market and through authorized intermediary – in accordance with the procedures provided by art. 144 bis, paragraph 1, letter b of the Issuer 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, for a period of 18 months, 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.

In 2013, as part of the share buy-back plans, 450,000 treasury shares were sold. At 31 December 2013, Cairo Communication held a total of n. 779 treasury shares, or 0.001% of the share capital, subject to art. 2357-ter of the Italian Civil Code.

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

Cairo Communication 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.
- La7 S.r.l. (former 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 U.T. Communication S.p.A. – which is directly controlled by Urbano R. Cairo – is not subject to the management and coordination of such company, nor of any other entity. The Board of Directors of Cairo Communication has come to such conclusion taking account of the absence of further elements (with respect to mere control) that may lean towards the existence of a unitary direction and the circumstance that UT Communication S.p.A. is, de facto, a holding company and has never actually exercised any policy-making functions and/or interference in the management of the Issuer, restricting its activities to the management of its own controlling investment.

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It should be noted that information prescribed by art. 123-bis, paragraph 1, **letter (i)** (*“agreements between the Company and the directors, members of the management board or supervisory board providing for indemnity in the event of resignation or unjust dismissal ….”* is found in the section on the Directors’ Fees report (Sect. 9), and that there is no information to disclose under art. 123-bis, paragraph 1 **letter (l)**.

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

The Cairo Communication Group has adopted a Corporate Governance Code for listed companies, amended in December 2011 by the Corporate Governance Committee and promoted by Borsa Italiana, also available on www.borsaitaliana.it

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

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.

On 18 December 2013, the Board of Directors, in view of the renewal of its company bodies (at the Shareholders’ Meeting called to approve the financial statements for the year 31 December 2013) and following entry into force of:

(i) Law 120/2011 (published in State Gazette no. 174 of 28 July 2011) which, with the aim of facilitating access of the less represented gender to company bodies, requires listed companies (art. 147-ter, paragraph 1-ter and art. 148, paragraph 1-bis of Legislative Decree n. 58 of 24 February 1998, hereinafter "TUF") to adopt, within their respective administrative and control bodies and with effect from the first renewal following entry into force of the law, procedures for reserving quotas to ensure minimum gender representation provided for by such law, and

(ii) Consob Resolution 18098 of 8 February 2012, introducing in Part III, Title V *bis*, Section V of the Issuers’ Regulations (hereinafter, “IR”), the new Chapter I-bis “Gender balance in the composition of administrative and control bodies”, art.

144-*undecies* of which provides, among other things that “*company by-laws shall regulate:*

a) the procedures for the composition of the lists, as well as any additional identification criteria of corporate bodies’ members allowing compliance with gender balance within the voting procedures; company bylaws shall not impose compliance with the gender balance criteria to those lists with less than three members;

b) the procedures for the replacement of the members of the corporate bodies ceased from office, taking into account the criteria for gender diversity allocation;

c) *the procedures for the exercise of the appointment rights, if any, not in contrast with the provisions of art. 147-ter, paragraph 1-ter, and art. 148, paragraph 1-bis, of the TUF*”

resolved - under articles 21.2 of the bylaws (under which "*the board of directors, pursuant to art. 2365 of the Italian Civil Code, is assigned competence of the resolutions relating to [...] harmonization of the bylaws to statutory provisions of law [...]")* - on certain amendments to articles 14 and 15 of the bylaws to harmonize them to the new legislation.

Under the bylaws:

- lists must be filed with the registered office within the 25th day before the date on which the Shareholders’ Meeting is called to decide on the appointment of the members of the Board of Directors, and made available to the public at the registered office, on the Company website and in accordance with the procedures provided for by the law and regulations, at least 21 days before the date of the Meeting;
- lists admitted to the voting are those submitted by shareholders who, either individually or jointly with other shareholders, represent at least 2.5% of the shares entitled to vote in the 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;
- candidates shall appear in the lists in sequential order and shall be in a number no higher than the maximum amount of directors provided under the bylaws (eleven);

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

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

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 Italian Civil Code, the Board of Directors is authorized, *inter alia*, to adopt resolutions concerning merger, in the cases set forth in articles 2505 and 2505 *bis* of the Italian Civil Code, capital reduction in the event of shareholder withdrawal, harmonization of the bylaws to mandatory provisions of law, relocation of the registered office to other premises in Italy.

Succession planning

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

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

At their meeting on 28 April 2011:

- the Shareholders appointed 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, the Board of Directors of the company composed of:

- three Executive Directors: the Chairman Urbano Cairo, Uberto Fornara and Marco Pompignoli,
- two Non-Executive Directors: Antonio Magnocavallo and Roberto Cairo and
- three independent directors: Marco Janni, Mauro Sala and Roberto Rezzonico.

At its meeting on 11 March 2013, the Board established the following general criteria on the maximum number of administrative and control positions in other companies considered compatible with the effective performance of the role of director of the Issuer:

- executive directors may not hold any other executive office, or, in any case, be appointed as statutory auditors in other companies listed on regulated markets, financial companies, banks, insurance companies or major companies, and may hold up to five non-executive positions in such companies;
- non-executive directors may hold up to five executive or statutory auditor positions in other companies listed on regulated markets, financial companies, banks, insurance companies or major companies, up to eight non-executive positions in such companies and, in any case, up to a total of fifteen positions;
- independent directors, without prejudice to the limits set for non-executive directors, which also apply to independent directors, may hold up to eight positions as independent director in other companies listed on regulated markets, financial companies, banks, insurance companies or major companies;

major companies meaning those where at least two of the following parameters have been exceeded: turnover above Euro 500 million, employees above 500 units, balance sheet assets above Euro 50 million, excluding from the calculation companies in which the Company (or its parent) holds a controlling and/or relevant interest, pursuant to art. 2359 of the Italian Civil Code.

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., companies that are not part of the Group to which the Issuer belongs.

Board of Directors											Control and Risk 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	100	-	X	100	X	100	X	100
Director	Mauro Sala	01/01	31/12	M	-	X	X	X	100	-	X	100	-	-	X	100
LID	Marco Janni	01/01	31/12	M	-	X	X	X	100	3	-	-	X	100	X	100
N. of meetings held in 2013:						BoD: 7			CRC: 4		RC: 3			RPC: 1		

Notes:

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

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

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

****In 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 administration from the Bocconi University, he has significant experience in the publishing and advertising segments. He started working with Fininvest in 1982. He went to work for Publitalia ’80 in 1985, where he was appointed Deputy-General Manager in 1990. In 1991 he was appointed as managing director of Mondadori Pubblicità. In December 1995 he founded Cairo Pubblicità, which initiated its 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 (launch of “For Men Magazine” and “Natural Style” in 2003, “Settimanale Dipiù” in 2004, “Dipiù TV” and “Diva e Donna” in 2005, “TV Mia” in 2008, “Settimanale Nuovo” and weekly magazine “F” in 2012, “Settimanale Giallo” in 2013), and the acquisition of La7 in 2013, which marks the entry in the TV publishing field.

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

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

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

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

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., 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.

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

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

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, two have already been held at 11 March 2014. To ensure that the Directors be prepared, all the documents and information on the facts taken into consideration by the Board are sent to them via e-mail in reasonable advance (at least two days in advance, a term which, save for urgencies, is usually met) before the date of the meeting. The term was generally met in 2013. In other cases, further analysis was ensured at Board meetings.

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

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

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

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

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

iii) provision of work or services;

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

v) any other action pertaining to property rights.

Significant transactions are those that must be disclosed to the market in accordance with art. 114 of the Consolidated Finance Act, by their nature, procedure or the nature of the counterparty, or those with a value of over Euro 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 regulations, these transactions are excluded from the powers conferred on the Directors and as such are subject to prior approval by the Board of Directors. If the Board of Directors cannot meet, for reasons of time pressure or other particular circumstances, the Chairman of the Board of Directors of the Company can carry out the transaction pending the approval of the Board of Directors which would then meet at the earliest possible opportunity.

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

During the year, the Board:

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

At its meeting on 13 May 2013, the Board of Directors carried out an evaluation on the size, composition and role of the Board of Directors itself and of its committees, noting that:

- the size of the Board of Directors (eight members, as the bylaws require from five to eleven members) appears adequate, taking into consideration the size and nature of corporate activities;

- the composition of the Board of Directors, considering that the three executive directors, with specific experience in company management, one of whom in finance, are supported by 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 Italian Civil Code.

4.4 Executive directors

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, and regarding significant transactions with related parties, are entrusted to the Chairman Urbano Cairo, who is the main person in charge of defining corporate strategies and management (chief executive officer).

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. He does not hold the position of director in any other issuer, therefore excluding cases of interlocking directorate.

The executive directors 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. None of the non-executive directors i) are CEO or executive chairman in a subsidiary of strategic relevance of the Issuer or ii) hold executive positions in the Issuer or in a subsidiary of strategic relevance or in the Parent.

4.6 Independent directors

Marco Janni, Roberto Rezzonico and Mauro Sala are independent directors, appointed as mentioned earlier by the shareholders at their meeting on 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.

Given the complexity of the verification under application criterion 3.C.1, letter (e) of the Code, which states that, generally speaking, a director of an issuer is no longer presumed independent if the office has been held for more than nine out of the last twelve years (which was the case for the two directors qualified as independent – Marco Janni and Roberto Rezzonico - and, given that, by analogy, the third - Mauro Sala - had been chairman of the Board of Statutory Auditors for over nine years), an opinion was requested from Professor Matteo Rescigno (full professor of commercial law at the University of Milan).[7]

Following acknowledgement of the opinion, the Board, given the recurrence of the requirements of independence under art. 148, paragraph 3, of the TUF, and non-recurrence of the most typical cases regarding absence of independence listed in application criterion 3.C.1 of the Corporate Governance Code (letters from a) to h), except for sub e), 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

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

proving the existence of particular relations with the Issuer or with subjects linked with the Issuer (such as the majority shareholder, etc.) and, in particular:

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

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

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

(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 recurrence of the requirement of independence of the foregoing directors (the Board of Statutory Auditors had 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).

At its meetings on 10 May 2012 and 13 May 2013, the Board assessed the existence of the independence requirements for each of the above directors. In particular, after hearing the parties involved, and deeming that in 2011 and 2012, no elements had emerged such as to change the assessment made with the decision of 3 May 2011, confirmed – with the parties involved abstaining from the vote - the existence of the independence requirements of directors Marco Janni, Roberto Rezzonico and Mauro Sala.

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

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

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

4.7 Lead Independent Director

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

5 Treatment of privileged information

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

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

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

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

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

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

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

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

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

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

6 Board of Directors' Committees

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

7 Appointment Committee

Mention must be made that the amendments made to the Corporate Governance Code in December 2011, which affect the composition of the Board of Directors or its committees, including the amendment to the 5.P.1 principle (formation of the Appointment Committee), apply as from the first renewal of the Board of Directors following the end of the financial year which started in 2011. Regarding the company, renewal will take place at the Shareholders' Meeting called with the Board that approved this report.

That being said, at its meeting of 13 May 2013, the Board of Directors evaluated the block holdings of the company and the absence of issues reported in the past relating to the sphere of competence of the Appointment Committee, managed efficiently and in compliance with the principles of the Corporate Governance Code directly by the Board of Directors, and decided not to form an Appointment Committee, as it was confirmed that the powers reserved by the Code to said Committee should continue to be carried out by the Board in its entirety.

8 Remuneration Committee

On 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). Roberto Rezzonico has adequate experience in the accounting and financial area.

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

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

To execute its functions, the Committee has the power to access the required information and corporate functions and to make use of external consultants, in accordance with the terms set by the Board of Directors. The Committee is assisted by a secretary appointed for such purpose (Marco Bisceglia), who records the minutes of the meetings.

The functioning of the Remuneration Committee is governed by a policy approved by the Board of Directors. The meetings of the Remuneration Committee were generally not attended by the Chairman of the Board of Statutory Auditors or other auditor delegated by the Chairman; these bodies formulated their opinion on proposals put forth by the Remuneration Committee within the Board of Directors.

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

In 2013, the Remuneration Committee met 3 times, for about 1 hour and with all members attending. On one occasion - after suspension of the meeting of the Board of Directors – its members held informal talks to refer their opinion to the Board of Directors. At least two meetings are scheduled this year.

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 2013 financial statements, to which reference is made for all the details.

At its meeting on 11 March 2013, the Board of Directors established the general remuneration policy for 2014 (illustrated in Section I of the Remuneration Report) regarding executive directors, other directors with particular responsibilities and key management personnel, which sets out, among other things, the guidelines for the:

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

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

c) measurability of performance targets and connection of these targets to the creation of value for shareholders in the medium to long term,

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 for some years now for executive directors and key management personnel, in order to base a sizeable portion of their fees on the achievement of specific performance targets previously set and determined, consistent with the guidelines held in the general remuneration policy adopted by the Board of Directors, as described in the Remuneration Report.

Directors' fees for the year 2013 are illustrated in Section II, Part II of the Remuneration Report.

Marco Pompignoli is also the Financial Reporting Manager.

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

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

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

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

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 Control and Risk 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 Control and Risk Committee (former Internal Control Committee), composed of non-executive directors Roberto Rezzonico (independent), Chairman, Mauro Sala (independent) and Antonio Magnocavallo. The Control and Risk Committee, in accordance with the Corporate Governance Code, is currently formed of non-executive directors, the majority of whom are independent. Roberto Rezzonico has appropriate experience in the accounting and financial area.

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

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

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

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

the Committee also

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

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

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

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

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

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

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

In 2013, the Control and Risk Committee met 4 times. Minutes of the meetings, lasting for about 2 hours, were recorded. Four meetings are scheduled this year, one has already been held at 11 March 2014.

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 audit manager

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

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

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

11. Internal control and risk management system

Purposes and objectives

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

The 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 Control and Risk Committee:

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

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

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

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

- to react to significant situations of risk in a timely manner, ensuring appropriate control mechanisms;
- in terms of corporate processes, to guarantee an appropriate degree of segregation of duties between operating functions and control functions to avoid conflicts of interest in the responsibilities assigned;
- in terms of the operating activities and accounting and administrative activities, to guarantee systems and procedures that assure the accurate recording of company and management events, in addition to the provision of reliable and timely information, both internal and external to the Group;

- to provide for methods to ensure the timely communication of any significant emerging risks and anomalies in control to the appropriate Group Management, and to enable the identification and timely execution of remedies.

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

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

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

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

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

b) Identification of controls upon identification of risks;

c) Evaluation of controls upon identification of risks.

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

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

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

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

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

Roles and functions

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

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

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

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

2. The internal audit manager, in charge of verifying that the internal control and risk management system is working properly and adequately;

3. other roles and functions with specific tasks regarding internal control and risk management,

4. the Board of Auditors, which monitors the effectiveness of the internal control and risk management system.

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

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

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

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

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

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

Marco Pompignoli, executive director, is responsible for overseeing the operation of the internal control and risk management system. In 2013, he was responsible for:

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

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

11.2 Internal audit manager

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

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

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

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

In 2013, the activities of the internal audit manager mainly focused on verifying the updating and implementation process of corporate procedures. He is a member of the Supervisory Board pursuant to Legislative Decree 231/2001, as indicated in section 11.3 below.

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

- verified on a continuous basis (not having reported specific needs) the operation and adequacy of the internal control and risk management system through an audit plan, based on the structured analysis and ranking of key risks and the reliability of information systems, including the accounting systems;
- regularly referred to the Control and Risk Committee, during the meetings of the Committee, also attended by the Chairman of the Board of Statutory Auditors and the director in charge of the internal control and risk management system, providing

appropriate information on the tasks performed, on risk management procedures, and compliance with defined plans for risk mitigation, as well as an opinion on the adequacy of the internal control and risk management system.

11.3 Organizational Model pursuant to Legislative Decree 231/2001

On 31 March 2008, the Board of Directors adopted a Model for organization, management and control pursuant to Legislative Decree 231/2001 (Organizational Model), thereby providing itself with a set of principles of conduct and procedures to comply with the requirements of Legislative Decree 231/2001, both in terms of the prevention of crime and illicit acts, and in terms of control measures to ensure implementation of the Model itself. The Model was updated by the Board of Directors, on proposal of the Supervisory Board, in 2009 and 2012, following regulatory changes; the cases of "bribery among private individuals" is currently being discussed with a view to their introduction in the Model. A similar model was also adopted on 13 November 2008 by the subsidiaries Cairo Pubblicità S.p.A. and Cairo Editore S.p.A. (later updated, consistent with the Organizational Model of Cairo Communication S.p.A.) and on 18 December 2013 by the subsidiary La7 S.r.l.

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

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

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

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

In 2013, the members of the Supervisory Board of Cairo Communication S.p.A. were Ezio Micheli, internal audit manager, Giacomo Leone and Marco Bisceglia, Chairman.

11.4 Audit Firm

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

11.5 Financial Reporting Manager

The Board of Directors appointed Marco Pompignoli, Chief Financial Officer of the Cairo Communication Group, as the Financial Reporting Manager. He has the appropriate professional requirements (graduate in business administration, previously working for a major audit firm, gaining significant experience in Italy and abroad, and a certified accountant registered in Forlì). Marco Pompignoli, as board member of the company, is provided with executive and management powers to oversee the administration, finance and management control functions of the Group to which the Issuer belongs.

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

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

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

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

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

12 Related party transactions

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

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

Pursuant to the Regulation, Cairo Communication is considered a "small company", since its assets and its revenue shown, shown in the last approved financial statements (31 December 2012), are lower than Euro 500 million, amounting respectively to approximately Euro 185 million and to approximately Euro 276 million. For such companies, the Regulation provides for the possibility to "apply to transactions of greater importance, as a waiver to art. 8, a procedure identified pursuant to art. 7 of the Regulation" (transactions of lesser importance).

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

a) the definition of related parties and transactions;

b) roles and responsibilities;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On 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 Committee is assisted in performing its duties by a secretary (Marco Bisceglia), to whom the Board of Directors allocated Euro 2 thousand as annual remuneration.

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

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

13 Appointment of the Board of Statutory Auditors

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

On 18 December 2013, the Board of Directors, in view of the renewal of its company bodies (at the Shareholders' Meeting called to approve the financial statements for the year 31 December 2013) and following entry into force of:

- Law 120/2011 (published in State Gazette no. 174 of 28 July 2011) and

- Consob Resolution 18098 of 8 February 2012, introducing in Part III, Title V *bis*, Section V of the Issuers' Regulations (hereinafter, "IR"), the new Chapter I-bis "Gender balance in the composition of administrative and control bodies",

resolved, under articles 21.2 of the bylaws, on certain amendments to articles 25 and 26 of the bylaws to harmonize them to the new legislation.

Under the bylaws:

- members of the Board of Statutory Auditors are appointed on the basis of lists that must be filed with the registered office of the Company within the 25th day before the Shareholders' Meeting called to decide on the appointment of the members of the Board of Statutory Auditors, made available to the public at the registered office, on www.cairocommunication.it and in accordance with the other procedures provided by law and regulations, at least 21 days before the date of the Meeting. Upon expiry of the time limit of 25 days prior to the Meeting, in the event only one list has been filed, or lists submitted by shareholders who are connected, pursuant to applicable provisions, lists may be submitted until the fourth day (as set forth in the bylaws) subsequent to such date. In this event, the foregoing 2.5% threshold (or other minimum amount set by prevailing laws) is reduced by half;
- the lists consist of two sections: one for candidates to the position of standing auditor, and the other for candidates to the position of alternate auditor, and where the number of candidates is equal to or higher than three, they must ensure minimum gender representation required by the laws and regulations in force at the time;
- lists admitted to the voting are those submitted by shareholders who, either individually or jointly with other shareholders, represent at least 2.5% of the shares entitled to vote in the ordinary meeting, or other minimum amount set by Consob. Ownership of the minimum stake is determined on the basis of the shares recorded in the name of the shareholder on the date the lists are filed with the Company; candidates may appear in one list only, under penalty of ineligibility; candidates holding the position of statutory auditor in 5 (five) other listed companies (excluding their subsidiaries, although listed) or holding a number of positions exceeding the cumulative limit prescribed by law and by Consob, or failing to possess the requirements of integrity and professionalism established by prevailing laws, shall not appear in the lists. Each list shall be accompanied by a) information regarding the identity of the shareholders who have

submitted the list, indicating total percentage of shares held, and by prescribed certification on ownership of the stake, which may be submitted also subsequent to filing, provided within the time limit set for publication of the lists; b) a statement of the shareholders other than those who hold, also jointly, a controlling or relative majority interest, declaring they have no relationship of connection, pursuant to applicable provisions; c) detailed information regarding the personal and professional qualifications of the candidates (including gender), and a statement with which each candidate accepts nomination and attests, under own responsibility, that there are no reasons for ineligibility or incompatibility with the position, and confirms possession of the requirements prescribed by law and the bylaws for the respective positions;

- the chairman of the board of statutory auditors shall be the candidate indicated on top of the list that has received the second-highest number of votes. The bylaws do not provide for the appointment of more than one minority statutory auditor, nor do they provide for the possibility of drawing a number of alternate auditors from the minority list to replace the minority member greater than the minimum required by Consob;
- should two or more lists reach a tie, the prevailing list shall be the list possessing the largest shareholding or, in the event of a tie, the highest number of shareholders;
- should only one list be submitted, the three standing auditors and two alternate auditors shall be drawn from this list, in the sequential order in which they appear, in which case the Chairman of the board of statutory auditors shall be the candidate appearing on top of the list;
- according to the above procedure, should the composition of the board of statutory auditors fail to comply with gender balance required by law or regulations currently in force, the necessary replacements shall be made based on the sequential order of listing of candidates;
- should no list be submitted or admitted, the board of statutory auditors and its Chairman shall be appointed by the Shareholders’ Meeting by relative majority vote, in compliance with the laws and regulations in force on gender balance.

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

At their meeting on 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 submitted 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 and the bylaws, specifically, the requirements of independence provided by art. 148, paragraph 3 of the TUF, and the requirements of independence provided by industry regulations if applicable on account of business activities performed.

Board of Statutory Auditors							
Post	**Members**	**From**	**Until**	**List (M/m)***	**Independence as per Code**	**** (%)**	**Number of other posts *****
Chairman	Marco Moroni	01/01	31/12	M	X	100	15
Standing auditor	Marco Giuliani	01/01	31/12	M	X	100	13
Standing auditor	Maria Pia Maspes	01/01	31/12	M	X	100	14
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
Quorum required for the submission of lists at previous appointment: 2.5%							
No. of meetings held during 2013: 5							

NOTES:

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

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

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

In 2013, 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. In any event, auditors who, either or on their own behalf or of third parties, may have an interest in a specific transaction involving the Issuer, shall promptly and fully inform the other auditors and the Chairman of the Board of Directors as to the nature, terms, origin and extent of their interest.

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

In the performance of its duties, the Board of Statutory Auditors coordinated its activities with the internal audit manager and with the Control and Risk Committee, also with the attendance of its Chairman or other statutory auditor delegated to the meetings of the Control and Risk Committee. Given the vast knowledge of the Company accumulated by the statutory auditors and their wealth of experience in the specific areas of operation of the Cairo Communication Group, as well as the specific personal and professional background of each member of the Board of Statutory Auditors, it was not deemed necessary to have them attend (induction program), following appointment and during their term of office, initiatives to provide them with adequate knowledge of the area of operation of the Issuer, of company dynamics and evolution, as well as the relevant regulatory framework.

15 Investor Relations

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

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

16 Shareholders' Meetings

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

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

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

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

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

Treasury shares

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

Stock Options

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

Shares held by directors, statutory auditors and general managers

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

Other information

Research and development activities

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

Human resources

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

Staff turnover during 2013 and its composition at 31 December 2013 can be analyzed as follows:

Description	31/12/2012	La 7	Recruitments	Terminations	Advancements	30/12/2013
Open-ended contracts	277	413	25	(18)	0	**697**
Senior managers	14	9	3	(3)	1	**24**
Managers	20	63	1	(2)	0	**82**
Employees	131	240	9	(8)	(1)	**371**
Journalists and freelance	112	101	12	(5)	0	**220**
Fixed-term contracts	13	15	82	(70)	0	**40**
Senior managers	0	1	0	(1)	0	**0**
Managers	0	0	0	0	0	**0**
Employees	1	14	68	(52)	0	**31**
Journalists and freelance	12	0	14	(17)	0	**9**
Total	**290**	**428**	**107**	**(88)**	**0**	**737**

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

	Senior managers	Managers	Employees	Journalists
Men (number)	23	53	199	97
Women (number)	1	29	203	132
Average age	49	48	43	48
Seniority	11	12	11	13
Open-ended contracts	24	82	371	220
Fixed-term contracts	0	0	31	9
Graduates	19	34	98	109
Diploma holders	5	48	282	118
Middle school graduates	0	0	22	2

The sharp rise in staff is explained by the consolidation of La7 S.r.l.

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

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

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

Environment

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

Privacy

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

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

EVENTS AFTER THE REPORTING PERIOD AND BUSINESS OUTLOOK

In 2013 the Group faced tough challenges in its relevant market, owing in particular to the advertising trend (in 2013, -10% and -23.9% the TV and magazine advertising markets versus 2012, *ACNielsen*). Deterioration of the short and medium-term economic uncertainty was one of the factors that slowed the pace of magazine sales in the publishing segment.

Despite this backdrop, in 2013 the Cairo Communication Group:

- continued its development strategy with the launch of “Settimanale Giallo”, the weekly led by Andrea Biavardi, which was launched on 11 April with good circulation figures,
- improved the results of “Settimanale Nuovo” and “F” launched in 2012, and continued to support the high quality and circulation levels of its publications,
- worked on improving the levels of efficiency reached in containing production, publishing and distribution costs,
- achieved highly positive results, despite the contraction in advertising revenue due to the relevant market trend,
- completed the acquisition of La7 and started operations as a TV publisher.

In 2014, the Cairo Communication Group will continue to pursue the development of its traditional segments (magazine publishing and advertising sales). Despite the economic and competitive backdrop, given the high quality of the publications and of the media under concession, the Group considers it a feasible target to continue to achieve positive operating results. Specifically,

- for magazine publishing (Cairo Editore and Cairo Publishing), the aim is to strengthen the results of "Settimanale Giallo", "Settimanale Nuovo" and "F", to confirm the high circulation levels of the other publications and to continue to improve the efficiency levels achieved in curbing production, publishing and distribution costs;
- for advertising sales on TV, on the titles of the Group and Prima Comunicazione, at the Olimpico in Turin for Torino FC, the aim is to preserve and develop the high levels of advertising revenue, despite the general market trend.

Starting from June 2013, TV advertising revenue began picking up pace, driven by the recovery of the market and the strong growth in La7's audience figures. In 4Q13 in particular, advertising sales on La7 channels reached Euro 48.4 million, growing by approximately 6.5% versus 4Q12 (Euro 45.5 million), continuing the trend that had started in June, and rebounding versus the performance reported in the first five months of the year. At 11 March 2014, the order book for advertising aired and to be aired on La7 and La7d in the first quarter January-March 2014, amounting to Euro 38.6 million, is up by approximately 4% compared to last year's order book for same period at the same date and has already exceeded the total revenues of the first quarter January-March 2013, amounting to Euro 38.1 million.

Regarding the TV publishing segment (La7), starting from May 2013, the Group began to implement its plan to restructure La7 and succeeded in achieving a positive gross operating profit (EBITDA) as early as the May-December eight-month period of 2013. In 2014, the Group will continue with its plan to restructure the company, with the aim of strengthening the results of the rationalization and cost-curbing measures adopted in the first eight months of activity, and of continuing to pursue the turnaround.

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

For the Board of Directors

Chairman Urbano Cairo

Dear Shareholders,

at the meeting held on 11 March 2014, the Board of Directors resolved to submit the financial statements as at and for the year ended 31 December 2013 to the approval of the Shareholders and to propose the distribution of a dividend of 0.27 Euro per share, inclusive of tax.

Shareholders are invited:

- to approve the financial statements as at and for the year ended 31 December 2013;
- to resolve on the proposal to distribute to shareholders a dividend of 0.27 Euro per share, inclusive of tax, with the exception of treasury shares held the evening prior to the record date pursuant to art. 83-*terdecies* of Legislative Decree 58/1998:
    - distributing profit for the year of Euro 18,060,836,
    - drawing the difference from the share premium reserve.

If approved by the Shareholders, the dividend of Euro 0.27 per share will be made payable from 15 May 2014 (record date pursuant to art. 83-*terdecies* Legislative Decree 58/1998: 14 May), prior to detachment of coupon n. 8 on 12 May 2014.

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 2013

€ thousands	Notes	31 December 2013	31 December 2012
Revenue	1	249.514	275.938
Other revenue and income	2	7.985	4.300
Changes in finished goods	3	(61)	(38)
Raw materials, consumables and supplies	4	(28.287)	(28.704)
Services	5	(134.121)	(191.980)
Non-recurring costs for services	10	(1.917)	0
Use of third-party assets	6	(17.828)	(2.651)
Personnel expense	7	(48.789)	(24.597)
Amortization, depreciation, provisions and impairment losses	8	(5.606)	(2.743)
Other operating costs	9	(1.728)	(946)
Operating profit		**19.162**	**28.579**
Income / (loss) on investments	11	699	(1.461)
Non-recurring income from the acquisition of La7 S.r.l.	10	57.066	0
Net financial income	12	2.901	1.615
Pre-tax profit		**79.828**	**28.733**
Income tax	13	(5.620)	(9.975)
Profit from continuing operations		**74.208**	**18.758**
Loss from discontinued operations	14	**(6)**	**(1)**
Profit for the year		**74.202**	**18.757**
- Owners of the parent		74.194	18.756
- Non-controlling interests - discontinued operations		0	0
- Non-controlling interests - continuing operations		8	1
		74.202	**18.757**
Earnings per share (€)			
- Earnings per share - continuing and discontinued operations	16	0,949	0,240
- Earnings per share - continuing operations	16	0,949	0,240

Consolidated statement of comprehensive income for the year ended 31 December 2013

		31 December 2013	31 December 2012
Profit for the year		**74.202**	**18.757**
Other non-reclassifiable items of the comprehensive income statement			
Actuarial gains (losses) from defined benefit plans	21	(510)	128
Tax effect		140	(35)
Total comprehensive income for the year		**73.832**	**18.850**
- Owners of the parent		73.824	18.849
- Non-controlling interests - from discontinued operations		0	0
- Non-controlling interests - continuing operations		8	1
		73.832	**18.850**

Consolidated statement of financial position at 31 December 2013

€ thousands Assets	Notes	31 December 2013	31 December 2012
Property, plant and equipment	17	2,829	2,942
Intangible assets	18	12,986	9,107
Investments	19	72	21
Non-current financial assets	19	483	58
Deferred tax assets	20	4,589	4,263
Total non-current assets		**20,959**	**16,391**
Inventories	21	4,104	3,857
Trade receivables	22	90,065	90,381
Receivables from parents	32	5,583	4,699
Other receivables and other current assets	23	8,369	8,177
Cash and cash equivalents	25	172,915	61,234
Total current assets		**281,036**	**168,348**
Total assets		**301,995**	**184,739**

Equity and liabilities	Notes	31 December 2013	31 December 2012
Share capital		4,027	4,074
Share premium reserve		45,452	45,452
Prior-year earnings (losses) and other reserves		985	2,194
Interim dividend of parent		0	(10,126)
Profit for the year		74,194	18,756
Equity attributable to the owners of the parent		**124,658**	**60,350**
Non-controlling interests share capital and reserves		**12**	**4**
Total equity	**26**	**124,670**	**60,354**
Post-employment benefits	27	11,832	4,086
Provisions for risks and charges	29	34,982	2,279
Total non-current liabilities		**46,814**	**6,365**
Trade payables	31	105,926	104,932
Payables to parents	32	11	11
Tax liabilities	33	3,752	1,451
Other current liabilities	34	20,822	11,626
Total current liabilities		**130,511**	**118,020**
Total liabilities		**177,325**	**124,385**
Total equity and liabilities		**301,995**	**184,739**

Consolidated statements of cash flows

€ thousands	31 December 2013	31 December 2012
CASH AND CASH EQUIVALENTS	**61,234**	**54,701**
OPERATING ACTIVITIES		
Profit for the year	74,202	18,757
Non-recurring income from the acquisition of La7 S.r.l. (Note 10)	(57,066)	0
Amortization and depreciation	1,628	882
Loss on investments	(699)	1,461
Net financial income	(2,901)	(1,746)
Income tax	5,620	9,940
Change in post-employment benefits	108	188
Change in provisions for risks and charges	527	97
Cash flow from operating activities before changes in working capital	**21,419**	**29,579**
(Increase) decrease in trade and other receivables	9,893	17,048
Increase (decrease) in trade and other payables	(14,922)	(4,176)
'(Increase) decrease in inventories	1,310	(468)
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	**17,700**	**41,983**
Income tax paid	(4,529)	(15,400)
Financial expense paid	(27)	(126)
TOTAL NET CASH FROM OPERATING ACTIVITIES (A)	**13,144**	**26,457**
INVESTING ACTIVITIES		
(Acquisition) disposal net of PPE and intangible assets	(5,394)	(924)
Cash and cash equivalents acquired net of purchase price of La7 S.r.l. (*)	109,199	0
Interest and financial income received	3,391	1,872
Net increase in other non-current assets	1,235	0
NET CASH USED IN INVESTING ACTIVITIES (B)	**108,431**	**948**
FINANCING ACTIVITIES		
Dividends paid	(10,905)	(20,559)
(Acquisition) disposal of treasury shares	1,382	(214)
Re-measurement of defined benefit plans inclusive of tax effect	(370)	(94)
Other changes in equity	(1)	(5)
NET CASH USED IN FINANCING ACTIVITIES (C)	**(9,894)**	**(20,872)**
CASH FLOW OF THE YEAR (A)+(B)+(C)	**111,681**	**6,533**
CLOSING CASH AND CASH EQUIVALENTS	**172,915**	**61,234**

(*) Main items of the consolidation of La7 S.r.l. at 30 April 2013:

Other non-current assets	(1,013)
Inventories	(1,557)
Trade and other current receivables	(59,707)
Trade and other current payables	75,053
Provisions for risks and charges	32,176
Post-employment benefits	7,181
Non-recurring income from the acquisition of La7 S.r.l.	57,066
Cash and cash equivalents acquired net of purchase price of La7 S.r.l.	**109,199**

Statement of changes in consolidated equity

€ thousands	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
Balance at 31 December 2010	**4.074**	**51.081**	**(3.576)**	**(2.124)**	**0**	**20.729**	**70.184**	**0**	**70.184**
Effects from application of amended IAS 19			6			(6)	0	0	0
Balance at 1 January 2011	**4.074**	**51.081**	**(3.570)**	**(2.124)**	**0**	**20.723**	**70.184**	**0**	**70.184**
Allocation of profit			20.723			(20.723)	**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 of reserve for available-for-sale financial assets			(2.132)	2.132			**0**		**0**
Comprehensive profit for the year				(8)		23.446	**23.438**	3	**23.441**
Balance at 31 December 2011	**4.074**	**49.586**	**(1.683)**	**0**	**(11.696)**	**23.446**	**63.727**	**3**	**63.730**
Effects from application of amended IAS 19			(2)			2	0		0
Balance at 1 January 2012	**4.074**	**49.586**	**(1.685)**	**0**	**(11.696)**	**23.448**	**63.727**	**3**	**63.730**
Allocation of profit			23.448			(23.448)	**0**		**0**
Dividend distribution		(4.134)	(19.257)		11.696		**(11.695)**		**(11.695)**
Interim dividend					(10.126)		**(10.126)**		**(10.126)**
Purchase of treasury shares			(214)				**(214)**		**(214)**
Other changes			(5)				**(5)**		**(5)**
Comprehensive profit for the year						18.663	**18.663**	1	**18.664**
Balance at 31 December 2012	**4.074**	**45.452**	**2.287**	**0**	**(10.126)**	**18.663**	**60.350**	**4**	**60.354**
Effects from application of amended IAS 19			(94)			94	0		0
Balance at 1 January 2013	**4.074**	**45.452**	**2.193**	**0**	**(10.126)**	**18.757**	**60.350**	**4**	**60.354**
Allocation of profit			18.757			(18.757)	**0**		**0**
Dividend distribution			(21.031)		10.126		**(10.905)**		**(10.905)**
Disposal of treasury shares			1.382				**1.382**		**1.382**
Actuarial gains (losses) from defined benefit plans			(370)			370	**0**		**0**
Other changes			7				**7**		**7**
Comprehensive profit for the year						73.824	**73.824**	8	**73.832**
Balance at 31 December 2013	**4.074**	**45.452**	**938**	**0**	**0**	**74.194**	**124.658**	**12**	**124.670**

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

€ thousands	31 December 2013	Related parties (*)	% of total	31 December 2012	Related parties	% of total
Revenue	249,514	176	0.1%	275,938	160	0.1%
Other revenue and income	7,985	42	0.5%	4,300	24	0.6%
Change in finished products	(61)			(38)		
Raw materials, consumables and supplies	(28,287)			(28,704)		
Services	(134,121)	(2,120)	1.6%	(191,980)	(1,709)	0.9%
Non-recurring costs for services	(1,917)			0		
Use of third-party assets	(17,828)			(2,651)		
Personnel expense	(48,789)			(24,597)		
Amortization, depreciation, provisions and impairment losses	(5,606)			(2,743)		
Other operating costs	(1,728)			(946)		
Operating profit	**19,162**			**28,579**		
Loss on investments	699			(1,461)	(1,461)	100.0%
Non-recurring income from the acquisition of La7 S.r.l.	57,066			0		
Net financial income	2,901			1,615		
Pre-tax profit	**79,828**			**28,733**		
Income tax	(5,620)			(9,975)		
Profit from continuing operations	**74,208**			**18,758**		
Profit/loss from discontinued operations	**(6)**			**(1)**		
Profit for the year	**74,202**			**18,757**		

(*) Related party transactions are analyzed in Note 36

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

€ thousands

Assets	**31 December 2013**	**Related parties (*)**	**% of total**	**31 December 2012**	**Related parties (*)**
Property, plant and equipment	2.829			2.942	
Intangible assets	12.986			9.107	
Investments	72			21	
Non-current financial assets	483			58	
Deferred tax assets	4.589			4.263	
Total non-current assets	**20.959**			**16.391**	
Inventories	4.104			3.857	
Trade receivables	90.065	445	0,5%	90.381	512
Receivables from parents	5.583	5.583	100,0%	4.699	4.699
Other receivables and other current assets	8.369	47	0,6%	8.177	47
Cash and cash equivalents	172.915			61.234	
Total current assets	**281.036**			**168.348**	
Total assets	**301.995**			**184.739**	

Equity and liabilities	**31 December 2013**			**31 December 2012**	
Share capital	4.027			4.074	
Share premium reserve	45.452			45.452	
Prior-year earnings (losses)	985			2.194	
Interim dividend of parent	0			(10.126)	
Profit for the year	74.194			18.756	
Equity attributable to the owners of the parent	**124.658**			**60.350**	
Non-controlling interests share capital and reserves	12			**4**	
Total equity	**124.670**			**60.354**	
Post-employment benefits	11.832			4.086	
Provisions for risks and charges	34.982			2.279	
Total non-current liabilities	**46.814**			**6.365**	
Trade payables	105.926	181	0,2%	104.932	39
Payables to parents	11	11	100,0%	11	11
Tax liabilities	3.752			1.451	
Other current liabilities	20.822		0,0%	11.626	1.262
Total current liabilities	**130.511**			**118.020**	
Total liabilities	**177.325**			**124.385**	
Total equity and liabilities	**301.995**			**184.739**	

(*) Related party transactions are analyzed in Note 36

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

€ thousands	31 December 2013	Related parties	31 December 2012	Related parties
CASH AND CASH EQUIVALENTS	**61,234**		**54,701**	
OPERATING ACTIVITIES				
Profit for the year	74,202	(1,902)	18,757	(1,261)
Non-recurring income from the acquisition of La7 S.r.l.	(57,066)			
Amortization and depreciation	1,628		882	
Loss on investments	(699)		1,461	1,461
Net financial income	(2,901)		(1,746)	
Income tax	5,620		9,940	
Change in post-employment benefits	108		188	
Change in provisions for risks and charges	527		97	
Cash flow from operating activities before changes in working capital	**21,419**	**(1,902)**	**29,579**	**200**
(Increase) decrease in trade and other receivables	9,893	(817)	17,048	1,092
Increase (decrease) in trade and other payables	(14,922)	(1,120)	(4,176)	1,145
(Increase) decrease in inventories	1,310		(468)	
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	**17,700**	**(3,839)**	**41,983**	**2,437**
Income tax paid	(4,529)		(15,400)	
Financial expense paid	(27)		(126)	
TOTAL NET CASH FROM OPERATING ACTIVITIES (A)	**13,144**	**(3,839)**	**26,457**	**2,437**
INVESTING ACTIVITIES				
(Acquisition) disposal net of PPE and intangible assets	(5,394)		(924)	
Cash and cash equivalents acquired net of purchase price of La7 S.r.l.	109,199		0	
Interest and financial income received	3,391		1,872	
Net increase in other non-current assets	1,235		0	
NET CASH USED IN INVESTING ACTIVITIES (B)	**108,431**	**0**	**948**	**0**
FINANCING ACTIVITIES				
Dividends paid	(10,905)		(20,559)	
(Acquisition) disposal of treasury shares	1,382		(214)	
Re-measurement of defined benefit plans inclusive of tax effect	(370)		(94)	
Other changes in equity	(1)		(5)	
NET CASH USED IN FINANCING ACTIVITIES (C)	**(9,894)**	**0**	**(20,872)**	**0**
CASH FLOW OF THE YEAR (A)+(B)+(C)	**111,681**	**(3,839)**	**6,533**	**2,437**
CLOSING CASH AND CASH EQUIVALENTS	**172,915**		**61,234**	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2013

Main activities

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

In 2013, Cairo Communication acquired the entire share capital of La7 S.r.l. from Telecom Italia Media. The transaction was completed on 30 April 2013 through its subsidiary Cairo Due S.r.l., and from that date, La7 S.r.l. was included in the scope of consolidation of the Cairo Communication Group.

Effective 1 August 2013, Cairo Due incorporated La7 and concurrently changed its name to La7 S.r.l.

Following the acquisition, the Cairo Communication Group started operations in the TV (La7, La7d) and Internet (La7.it, La7.tv, TG.La7.it) publishing field, with the upstream integration of its concessionaire business for the sale of television advertising space, diversifying its publishing activities previously focused on magazines.

The 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 managed at Cairo Editore, at 55 Corso Magenta, Milan. The publishing business of La7 is managed mainly in Rome at the registered offices and the TV studios of La7 S.r.l. at 229 Via della Pineta Sacchetti and 32 Via Novaro, respectively.

Figures are shown in thousands of Euro.

Basis of preparation

Structure, form and content of the consolidated financial statements

The consolidated financial statements at 31 December 2013 have been prepared in accordance with IFRS issued by the International Accounting Standard Board (“IASB”) and endorsed by the European Union, as well as with the provisions arising from art. 9 of Legislative Decree no. 38/2005. The term IFRS is used to mean all the international accounting standards (“IAS”) and all the interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), formerly the Standing Interpretations Committee (“SIC”).

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

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

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

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

The consolidated statement of comprehensive income has changed from the previous year, following the amendments to IAS 1 - *Presentation of Financial Statements*. It presents the items relating to the amounts of the components of other comprehensive income for the period by nature and grouped into those which, in accordance with the provisions of other IAS / IFRS:

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

The economic effects of the acquisition of the equity interest in La7 S.r.l. are shown in the income statement under "non-recurring income from the acquisition of La7 S.r.l.", following completion of the Purchase Price Allocation process, in accordance with IFRS 3 and explained in Note 10.

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

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

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

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

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

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

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

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

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

It should be noted that the retrospective application of the amendment to IAS 19 (2011) - *Employee Benefits* resulted in an upward adjustment of Euro 94 thousand of the 2012 result for the year, presented for comparative purposes, and a corresponding downward adjustment of an equivalent amount under "Prior-year gains (losses) and other reserves."

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

<u>Basis and scope of consolidation</u>

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

The consolidated financial statements at 31 December 2013 include the financial statements of the Parent Cairo Communication S.p.A. and the following direct or indirect subsidiaries and associates:

Company	Head Office	Quota capital at 31/12/13	% 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 (*)
La 7 S.r.l. (former Cairo Due S.r.l.)	Rome	1,020	100	31/12	TV publishing	Full from 30 April 2013
Cairo Pubblicità S.p.A.	Milan	2,818	100	31/12	Advertising	Full
Cairo Publishing S.r.l.	Milan	10	100	31/12	Publishing	Full
Il Trovatore S.r.l.	Milan	25	80	31/12	Internet	Full
Edizioni Anabasi S.r.l.	Milan	10	99.95	31/12	Publishing	Full

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

In 2013, Cairo Communication acquired the entire share capital of La7 S.r.l. from Telecom Italia Media. The transaction was completed on 30 April 2013 through its subsidiary Cairo Due S.r.l., and from that date, La7 S.r.l. was included in the scope of consolidation of the Cairo Communication Group.

Effective 1 August 2013, Cairo Due incorporated La7 and concurrently changed its name to La7 S.r.l.

The investment in DMail Group S.p.A., consolidated until 31 December 2012 on a single line basis as an associate, was initially classified under "other investments" as ex-associate, and then fully disposed of in 2013.

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

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

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

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

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

Business combinations

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

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

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

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

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

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

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.

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

- Advertising revenue is recognized at the moment the advertisement is broadcast or published. Revenue from publications is recognized at the date of publication, net of reasonably estimated returns.
- Revenue from the sale of magazine subscriptions is recognized on the basis of the magazines published and distributed during the period.
- Pre-publication and launch costs are recognized in profit and loss when incurred.
- Interest income and expense are recognized on an accruals basis.
- Dividends are recognized when the right of the shareholders to receive the payment is established.
- Costs 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 and its subsidiaries Cairo Editore S.p.A., Cairo Pubblicità S.p.A., Diellesei S.r.l. in liquidation, Cairo Publishing S.r.l. and La7 S.r.l. (former Cairo Due S.r.l.) participate in the national tax consolidation scheme of UT Communications S.p.A., in accordance with art. 117/129 of the Consolidated Income Tax Act.

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

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

Each company that participates in the national tax consolidation scheme transfers its taxable profit or loss to the tax parent. For any such taxable profit reported by a subsidiary, UT Communications S.p.A. recognizes receivables equal to the IRES payable. Conversely, for any such taxable loss, reported by a subsidiary, UT Communications 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.

The discounting process, based on demographic and financial assumptions, is performed by independent actuaries.

Following the Amendment to IAS 19 - *Employee Benefits*, the recognition of expenses related to work performed and net financial charges are recognized in the income statement, while the recognition of actuarial gains and losses arising from the re-measurement of liabilities and assets are recognized in the statement of comprehensive income.

<u>Non-current assets</u>

Intangible assets

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

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

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

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

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

Property, plant and equipment

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

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

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

Property	3%
General equipment	20%
Motor vehicles	20%-25%
Plant and 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

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

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

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

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

Cash and cash equivalents

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

Cash and cash equivalents are recognized at their nominal amount.

Borrowings, bank loans and overdrafts

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

Trade payables

These are recognized at their nominal amount.

<u>Equity</u>

Treasury shares

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

Dividends paid

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

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 persisting uncertainty factors in the short and medium economic term, which make it hard to predict a return to normal market conditions, have led to the need to make assumptions regarding future performance which are influenced by significant uncertainty, and the possibility of achieving results different from those estimated cannot be excluded for the next year, and which could therefore require adjustments to the carrying amount, even significant, although these are obviously neither currently quantifiable nor foreseeable.

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

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

Allowance for doubtful accounts

The allowance for 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 further deterioration of the financial conditions of Group debtors compared to deterioration already considered in the quantification of the recognized allowance for impairment.

Deferred tax assets

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

Recoverable amount of non-current assets (including goodwill)

Non-current assets include property, plant and equipment, intangible assets (including goodwill), investments and other financial assets. Management periodically reviews the carrying amount of the non-current assets held and used, and those of assets held for sale, as and when circumstances require such revision. This is performed by the comparison of the carrying amount of the asset and the greater of the fair value, less costs to sell, and value in use. Fair value is determined according to market prices. In the absence of market value, estimates and valuation models are used based on data available on the market.

Value in use is determined based on the estimate of expected cash flows from the use or sale of the asset and is discounted using appropriate discount rates. When the carrying amount of a non-current asset has suffered an impairment loss, the Group recognizes an impairment loss equal to the positive difference between the greater of carrying amount of the asset and its recoverable amount from its use or sale, as determined according to the Group's most recent plans.

For the preparation of the consolidated financial statements at 31 December 2013, 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 2014 performance, whose assumptions and results are in line with the information disclosed in the section on "*significant events after the reporting* *period and business outlook*” in the Directors’ Report. In addition, for the subsequent years of the plan, necessary adjustments have been cautiously made to take account of the deep market changes resulting from the current economic and financial crisis. No significant impairment was required based on such figures in the plan.

Provisions for risks and charges

The provisions for risk and charges relating to contingent liabilities of a legal or fiscal nature are made on the basis of estimates made by the Directors, on the basis of valuations made by the Company’s legal and fiscal 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 Note 35 and Note 37. Reference is made to the Directors’ Report for operational and business risks.

Accounting standards, amendments and interpretations applied from 1° January 2013

The following accounting standards, amendments and interpretations, revised also following IASB’s yearly improvement process, were applied for the first time by the Group starting from 1° January 2013:

- Amendment to IAS 1 – *Presentation of financial statements* – The amendment, issued by the IASB in June 2011, is applicable to financial periods beginning on 1 July 2012, and requires entities to group items presented in OCI (Other Comprehensive Income) into two categories, based on whether they can be potentially re-classifiable or less to profit or loss subsequently. The adoption of this amendment produced no significant effects to the disclosures presented in this Annual Financial Report.
- IAS 19 (2011) – Employee benefits – The amendment, issued by the IASB in June 2011, is applicable to financial periods beginning on 1 January 2013. It eliminates the option of deferring recognition of actuarial gains and losses via the corridor approach, requiring recognition in the profit and loss of cost components relating to work 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 serving the benefit plan 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. The amendment requires further information to provide in the explanatory notes. It should be noted that the retrospective application of the Amendment to IAS 19 (2011) - Employee Benefits determined the effects described in the previous paragraph “Basis of preparation”.

- Amendments to IFRS 7 – *Financial instruments: Disclosures* – In December 2011, the IASB issued a number of amendments to IFRS 7 – *Financial instruments: Disclosures*. The amendment requires information on the effects or potential effects of the agreements for the netting of financial assets and liabilities on the statement of financial position. The amendments must be applied to financial years beginning on or after January 1, 2013 and interim reporting periods after said date. The information must be provided retrospectively. The adoption of this amendment produced no significant effects to the disclosures presented in this Annual Financial Report.
- IFRS 13 – *Fair value measurement* – This standard, issued by the IASB in May 2011, is applicable from 1° January 2013. The standard defines fair value, clarifies how it is to be determined, and introduces common disclosure for all items measured at fair value. The standard applies to all transactions or balances for which another standard requires or permits fair value measurement. Adoption of this standard did not affect the measurement of financial statement items included in this Annual Financial Report.
- The amendments introduced by the IASB document *Annual Improvements to IFRSs: 2009-2011 Cycle*, approved by (EU) Regulation n. 301/2013, effective as from 1 January 2013, produced no effects on the 2013 consolidated financial statements.

<u>Accounting standards, amendments and interpretations approved by the European Union, yet to be enforced, and not adopted in advance by the Group</u>

- IFRS 10 – *Consolidated Financial Statements* - The standard, issued by the IASB in May 2011, supersedes SIC 12 - *Consolidation: special purpose entities (vehicles)* and parts of IAS 27 – *Consolidated and separate financial statements*, renamed *Separate financial statements*. It sets out the accounting requirements of equity investments in the separate financial statements. The new standard identifies a common control system applicable to all entities, including vehicles. It also provides guidance on determining control when control is difficult to assess. The IASB requires retrospective application from 1° January 2013. The competent EU bodies have completed the approval process of the standard, deferring the date of application to 1° January 2014, allowing however early adoption beginning from 1° January 2013. The Group has determined that the effects of this new standard on the scope of consolidation are irrelevant.
- IFRS 11 – *Joint arrangements*, – The standard, issued by the IASB in May 2011, supersedes IAS 31 – *Interests in Joint Ventures* and SIC 13 – *Jointly controlled entities*: *Non-monetary contributions by venturers*. The new standard provides criteria to identify joint arrangements based on the rights and obligations arising from the agreements, rather than on their legal form. It uses only the equity method to account for interests in joint ventures in the consolidated financial

statements. Following issue of this standard, IAS 28 – *Investments in associates* was amended to include within its framework, from the effective date of the standard, interests in joint ventures. The IASB requires retrospective application from 1° January 2013. The competent EU bodies have completed the approval process of the standard, deferring the date of application to 1° January 2014, allowing however early adoption beginning from 1° January 2013. The Group has determined that the effects of this new standard on the scope of consolidation are irrelevant.

- IFRS 12 – *Disclosure of interests in other entities* – The standard, issued by the IASB in May 2011, establishes the disclosure of additional information to provide on all types of interests, including those in subsidiaries, joint arrangements, associates, special purpose entities and other unconsolidated structured entities. The IASB requires retrospective application from 1° January 2013. The competent EU bodies have completed the approval process of this standard, deferring the date of application to 1° January 2014, allowing however early adoption beginning from 1° January 2013. The effects of the adoption of the new standard are limited to disclosure relating to interests in other entities, to provide in the notes to the annual consolidated financial statements.
- IAS 28 (2011) - *Investments in associates and joint ventures* - Following issue of IFRS 11 in May 2011, the IASB amended the existing standard to include in its framework investments in joint ventures, and to govern the reduction of the interest which does not result in ceasing to apply the equity method. The standard is applicable from 1° January 2014.
- Amendments to IAS 32 – *Financial Instruments: Presentation* – The amendments issued by the IASB in December 2011 clarify the application of criteria for the offsetting of financial assets and liabilities appearing in IAS 32. The amendments must be applied retrospectively from 1° January 2014.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition guidance amendments* – On 28 June 2012, the IASB published the amendments to IFRS applicable, together with the relevant standards, from financial periods beginning on or after 1° January 2013, unless applied earlier. The purpose of the document, among other things, is to amend IFRS 10 to clarify how an investor must retrospectively adjust the comparative period if the conclusions on the consolidation are not the same in accordance with IAS 27/SIC 12 and IFRS 10 at the "date of initial application". In addition, the Board also amended IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of interests in other entities* to provide a similar option for the presentation or modification of the comparative information pertaining to the periods prior to the comparative period presented in the financial statements. IFRS 12 was further amended by limiting the request of presenting comparative information for disclosures regarding unconsolidated "structured entities" in periods prior to the date of application of IFRS 12. The document is applicable to financial periods beginning on or after 1° January 2014.

- Amendments to IFRS 10, IFRS 12 and IAS 27 – *Investment entities* – The amendment, issued by the IASB in October 2012, integrates IFRS 10 by clarifying the definition of investment entities and consolidation methods. The amendment to IFRS 12 integrates the standard by clarifying the disclosures to provide and the assessments on how to determine investment entities. The amendment to IAS 27 integrates the standard by establishing the disclosures that the investment entity is required to provide if it is also a controlling entity.
- IAS 36 – *Recoverable amount disclosures on non-financial assets* – The standard, issued by the IASB in May 2013, governs the disclosures to provide on the recoverable amount of impaired assets, if the amount is based on the fair value less costs of disposal. The amendments must be applied retrospectively to financial periods beginning on or after 1° January 2014. Early application is allowed for periods in which the entity has already applied IFRS 13.
- IAS 39 – *Financial instruments: recognition and measurement: "Novation of derivatives and continuation of hedge accounting*" – The standard, issued by the IASB in June 2013, clarifies that the amendments allow continuation of hedge accounting in the circumstance in which the derivative, which has been designated as an hedging instrument, is novated as a consequence of laws or regulations in order to replace the original counterparty to ensure performance of the obligation if certain conditions are met. The same amendment will also be included in IFRS 9 *Financial instruments*. These amendments must be applied retrospectively to financial periods beginning on or after 1° January 2014.

Accounting standards, amendments and interpretations yet to be enforced, not adopted in advance by the Group and not approved by the European Union

- IFRIC 21 - *Levies*, an interpretation of IAS 37 *Provisions, contingent liabilities and contingent assets*. The interpretation provides guidance on when to recognize liabilities for a levy imposed by a government, with the exception of those governed by other standards (i.e. IAS 12 – *Income tax*). IAS 37 establishes the recognition criteria of liabilities, one of which is the existence of a present obligation on an entity resulting from past events (obligating event). The interpretation clarifies that the obligating event that gives rise to liability for payment of a levy is explained by the relevant legislation that gives rise to its payment. IFRIC 21 must be applied to financial years beginning on or after 1° January 2014.
- Improvement to IAS 19 - *Employee benefits* - The amendment, issued by the IASB in November 2013, applies to employee contributions or defined benefit plans. The purpose of the amendments is to simplify the accounting of contributions that are independent of the number of years of service. The amendments are effective as from 1 ° July 2014; early application is allowed.

- Improvement to IFRS 2010-2012 Cycle - The amendment, issued by IASB in December 2013, contains a set of amendments to IFRS (IFRS2, IFRS3, IFRS 8, IFRS13, IAS 16, IAS 24 and IAS 28). These amendments arise from proposals contained in the Draft Annual Improvements to IFRS 2010-2012 Cycle, published in May 2012. The amendments are effective as from 1 ° July 2014; early application is allowed.
- Improvement to IFRS 2011-2013 Cycle - The amendment, issued by the IASB in December 2013, contains a set of amendments to IFRS (IFRS1, IFRS 3, IFRS 13, and IAS 40). These amendments derive from proposals contained in the Exposure Draft Annual Improvements to IFRS 2011-2013 Cycle, published in November 2012. The amendments are effective as from 1° July 2014; early application is allowed.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

Regarding the items of the consolidated income statement, following is the analysis of the main items of cost and revenue for the year ended 31 December 2013. The comparative figures refer to the annual financial report at 31 December 2012. It should be noted that the 2013 income statement includes revenue and costs of the eight months from May to December 2013 of La7 S.r.l., which was consolidated on 1 May 2013.

1. Revenue

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

(€ thousands)	31/12/2013	31/12/2012
Gross operating revenue	276,704	309,150
Advertising agency discounts	(27,190)	(33,212)
Net operating revenue	**249,514**	**275,938**

Revenue is generated exclusively in Italy and an analysis by geographical area is pointless. An analysis of revenue by business segment is provided in Note 15.

Gross revenue can be analyzed as follows:

	31/12/2013	31/12/2012
TV advertising	163,213	190,566
Print media advertising	29,229	36,226
Stadium signage and electronic billboards	2,536	1,996
Internet advertising	966	1,760
Revenue from concession of programming schedule spaces	1,295	-
Other TV revenue	2,070	-
Magazine sales	74,791	75,621
Subscriptions	2,992	3,016
Books and catalogues	910	1,302
VAT relating to publications	(1,398)	(1,439)
Other	100	102
Total gross revenue	**276,704**	**309,150**

The consolidation of La7 S.r.l. brought no significant change to revenue, since over 90% of La7 S.r.l. revenue is generated by advertising sales made by Cairo Communication under the existing advertising concession contract. Net of intra-group items, the consolidation of La7 in the May-December eight-month period of 2013 resulted in an increase in revenue of Euro 7.8 million, due to the direct sale of advertising of Euro 4.4 million, to revenue from the sale of programming schedule spaces of Euro 1.3 million and other TV revenue of Euro 2.1 million.

As explained more in detail in the Directors' Report, in 2013:

- sales revenue from Group publications, amounting to Euro 74.8 million, were basically in line with 2012 (Euro 75.6 million),
- gross advertising revenue on the Group's magazines, amounting to Euro 28.3 million, dropped versus 2012 by 19.7% (-23.9% the magazine advertising market in 2013, *AC Nielsen*),
- TV advertising revenue (which comprises La7, La7d, and theme channels Cartoon Network, Boomerang, and CNN) totaled Euro 163.2 million, driven down by the advertising market trend (-10% the TV advertising market in 2013, *AC Nielsen*). Starting from June 2013, TV advertising revenue began picking up pace. In 4Q13 in particular, advertising sales on La7 and La7d reached Euro 48.4 million, growing by approximately 6.5% versus 4Q12 (Euro 45.5 million), continuing the trend that had started in June, and rebounding versus the performance reported in the first five months of the year..

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2. Other revenue and income

“Other revenue and income”, amounting to Euro 7,985 thousand (Euro 4,300 thousand in 2012), consist of revenue from pulp and paper sales, prior-year income, charging of technical advertising costs and other items of revenue other than operating revenue. The increase versus 2012 is due mainly to the consolidation of La7, which contributed in the May-December eight-month period of 2013, other revenue and income of Euro 2,391 thousand.

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3. Changes in finished goods

The item amounts to a negative Euro 61 thousand (a negative Euro 38 thousand in 2012), arising from the use of the magazine sales during the ordinary course of business relating to Cairo Editore S.p.A. and Cairo Publishing S.r.l.

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4. Raw materials, consumables and supplies

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

	31/12/2013	31/12/2012
Paper	25,528	27,794
Set design materials	299	-
Equipment and sundry materials	1,211	1,415
Change in inventories of paper, equipment and sundry materials, TV programmes and the like	1,249	(505)
Total raw materials, consumables and supplies	**28,287**	**28,704**

The item includes costs arising from the consolidation of La7 S.r.l. starting from 1 May 2013 for a total of Euro 1,871 thousand, consisting mainly of the change in inventories of TV programmes and the like (Euro 1,337 thousand) and of the purchase of set design materials (Euro 299 thousand);

The change in inventories, amounting to Euro 1,249 thousand, refers to:

- Euro 1,337 thousand for the change in inventories of in-house TV programmes of La7 S.r.l. or programmes purchased externally and yet to be aired, rights on films, soaps and the like and related ancillary costs within one year and yet to be aired;
- a negative Euro 88 thousand for the change in inventories of paper and other consumables of Cairo Editore S.p.A.

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5. Services

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

	31/12/2013	31/12/2012
Direct brokerage costs	51,824	138,424
Technical costs	410	349
Administrative costs	4,806	4,450
Consultancies and collaborations	18,370	13,921
External processing	17,618	19,639
Sub-contracted TV programmes	8,460	-
Professional and artistic services and other TV consulting	5,023	-
Shooting, crew, editing, and outdoor TV activities	2,027	-
News and sport information services and TV news agency	1,561	-
TV broadcasting services	6,475	-
TV artwork	451	-
Outdoor TV links	697	-
Advertising and launch promotion costs	965	3,714
Advertising and promotion	6,581	6,795
Organizational costs and overheads	8,853	4,688
Total services	**134,121**	**191,980**

The item includes costs for services of La7 S.r.l. for the 1 May 2013 – 31 December 2013 period of Euro 34,856 thousand. These costs mainly refer to the production of sub-contracted TV programmes of Euro 8,460 thousand, professional and artistic services and other TV consulting of Euro 5,023 thousand, external collaboration of Euro 2,990 thousand, costs for shooting, editing and outdoor TV activities of Euro 2,027 thousand, news and sport information services and TV news agency of Euro 1,561 thousand, TV broadcasting services of Euro 6,475 thousand, artwork of Euro 451 thousand, outdoor TV links of Euro 697 thousand, advertising and promotion costs of Euro 829 thousand and organizational and overhead costs of Euro 6,343 thousand.

The decrease in "direct brokerage costs", which include publishers' fees and agents' commissions, is related to the consolidation of La7 S.r.l. starting from 1 May 2013 and to the resulting reversal and derecognition in the consolidated financial statements, for the eight month period ended 31 December 2013, of intra-group publishers' fees of Euro 69.2 million. The decrease is also related to the drop in advertising revenue.

"Advertising and launch costs" refers exclusively to the advertising and promotional costs incurred for the new magazine "Settimanale Giallo". Including the pre-publication and study phase, these costs totaled approximately Euro 1,003 thousand, of which Euro 965 thousand for advertising and promotion.

"Publishers' fees" also include Euro 1,988 thousand of Torino Football Club S.p.A., a subsidiary of U.T. Communications S.p.A., under the advertising concession agreement with Cairo Pubblicità S.p.A. as explained in Note 36 to related-party transactions.

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6. Use of third-party assets

The item amounts to Euro 17,828 thousand (Euro 2,651 thousand at 31 December 2012) and mainly includes costs for journalistic, sport and TV programme rights, lease payments for property, office equipment and royalties for copyrights.

	31/12/2013	**31/12/2012**
Lease payments for property	3,291	1,926
Rental of TV studios	607	-
Rental fees for TV studio equipment	1,129	-
TV programme rights	7,293	-
Sport rights	340	-
Journalistic rights	1,529	-
Copyrights (SIAE , IMAIE , SCF , AFI)	2,390	-
Royalty expense and sundry rights	448	274
Other costs for use of third-party assets	801	451
Total costs for use of third-party assets	**17,828**	**2,651**

The increase in "costs for use of third-party assets" is mainly attributable to the consolidation of La7 starting from 1 May 2013. In the May-December period, total "costs for use of third-party assets" of La7 S.r.l. amounted to Euro 15,216 thousand and mainly relate to property rental of Euro 1,246 thousand, rental of TV studios of Euro 607 thousand, rental fees for TV studio equipment of Euro 1,129 thousand, TV programme broadcasting rights of Euro 7,293 thousand, sport rights of Euro 340 thousand, journalistic rights of Euro 1,529 thousand, other copyrights (SIAE, IMAIE, SCF, AFI) of Euro 2,383 thousand and royalty expense and sundry rights of Euro 294 thousand.

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7. Personnel expense

The item can be analyzed as follows:

	31/12/2013	31/12/2012
Wages and salaries	35,534	18,252
Social security contributions	11,086	5,244
Post-employment benefits	1,102	1,079
Other expense	1,067	22
Total personnel expense	**48,789**	**24,597**

The increase in “personnel expense” is mainly attributable to the consolidation of La7 S.r.l. for the May-December eight-month period of 2013, when total “personnel expense” of La7 S.r.l. amounted to Euro 23,107 thousand.

Mention must be made that the retrospective application of the amendment to IAS 19 – *Employee benefits* resulted in an upward adjustment of Euro 259 thousand of personnel expense related to 2012.

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8. Amortization, depreciation, provisions and impairment losses

This item can be analyzed as follows:

	31/12/2013	31/12/2012
Amortization of intangible assets	1,065	501
Depreciation of property, plant and equipment	563	381
Allowance for impairment	2,857	1,782
Provisions for risk and charges	1,121	79
Total amortization, depreciation, provisions and impairment losses	**5,606**	**2,743**

This item includes depreciation and amortization and provisions related to La7 S.r.l. of Euro 1,248 thousand.

It should be noted that, as a result of impairments made in the allocation of the purchase price of the investment in La7 S.r.l., explained in Note 10, lower levels of depreciation of "property, plant and equipment" - Euro 2,208 thousand - and amortization of intangible assets - Euro 14,329 thousand - were recognized in 2013.

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9. Other operating costs

These can be analyzed as follows:

	31/12/2013	31/12/2012
Deductible and non-deductible taxes during the year	255	262
Prior-year expenses	699	268
Other	774	416
Total other operating costs	**1,728**	**946**

This item includes costs for a total of Euro 697 thousand in the May-December eight-month period of 2013 related to La7 S.r.l.

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10. Non-recurring income from the acquisition of La7 S.r.l.

The item amounts to Euro 57,066 thousand and refers to the excess of the "fair value" of assets acquired and liabilities assumed of La7 S.r.l. at acquisition date (30 April 2013) over the purchase price paid. These assessments were made based also on future income forecasts of La7 S.r.l.

Cairo Communication S.p.A. signed an agreement with Telecom Italia Media for the acquisition, for a consideration of Euro 1 million, of the entire share capital of La7 S.r.l., with the exclusion of the investment held by the company in MTV Italia S.r.l. The transaction was completed on 30 April 2013 and marked Cairo Communication S.p.A.’s start of operations in the TV publishing field, with the upstream integration of its concessionaire business for the sale of television advertising space, diversifying its publishing activities currently focused on magazines.

The financial situation of La7 S.r.l. at the acquisition date - in the first four months of 2013 it had posted a negative EBIT of Euro 43.5 million - called for the implementation of a restructuring plan aimed at reorganizing and streamlining the corporate structure and at curbing costs, while retaining the high quality levels of the programming schedule.

Under the agreements, the seller undertook to contribute to the realization of this project, with Telecom Italia Media’s commitment, at the date of execution on 30 April 2013, to achieve the agreed levels of net financial position, net working capital and equity. These were essentially related (net financial position and equity) also to the headcount at the date of execution and subject (net working capital and equity) to adjustments related to advertising revenue achieved in the four months January-April..

In October 2013, the seller concluded the assessment of the financial position of La7 at the effective date of disposal to the Cairo Communication Group. Following the assessment, considering that the equity of La7 recognized at that date exceeded the contractual amount, Telecom Italia Media and Cairo Communication agreed on payment by the Cairo Communication Group of Euro 4.8 million to Telecom Italia Media as a price adjustment. The amount was paid on 7 November 2013.

The acquisition was accounted for under IFRS 3, applying the so-called "acquisition method", by measuring the fair value of the identifiable assets and liabilities acquired, and taking into account the future income capacity of La7 S.r.l. at the acquisition date. As a result, a gain was recognized under "non-recurring income from the acquisition of La7 S.r.l.", which is the difference obtained from the total consideration paid for the acquisition, as explained in the following table:

Net assets acquired	Carrying value of acquiree	Fair value adjustment	Fair value
Intangible assets with definite useful life	42,227	(42,227)	-
Tangible assets	10,897	(10,897)	-
Other non-current assets	1,013		1,013
Inventories	1,557		1,557
Trade and other current receivables	59,707		59,707
Cash and cash equivalents	115,019		115,019
Trade and other current payables	(75,054)		(75,054)
Provisions for risks and charges	(10,786)	(21,389)	(32,175)
Post-employment benefits	(7,181)		(7,181)
Total net assets acquired	**137,399**	**(74,513)**	**62,886**
Initial acquisition price			1,020
Price adjustment			4,800
Total price paid			**5,820**
Difference between fair value of net assets acquired and purchase price			**57,066**

On allocation of the purchase cost to the current value (fair value) attributable to net assets acquired, the following points were identified:

a) a number of contracts whose unavoidable costs of meeting contractual obligations exceed the economic benefits expected to be received;
b) specific risk situations related to (i) existing contracts and (ii) pending litigation;
c) non-current assets, consisting mainly of TV broadcasting rights, software and specific technical equipment, whose value was considered unrecoverable given the income prospects of La7 S.r.l. at the acquisition date.

The cases referred to in points a) and b) have been given a negative fair value of Euro 21,389 thousand, recognized under "Provisions for future risks and charges".

The measurement of non-current assets referred to in point c) resulted in the full write-down of these assets, for a total of Euro 53,124 thousand.

Owing to the income prospects of the subsidiary La7 S.r.l. at the acquisition date, and the related uncertainties, no tax effect was considered in the purchase price allocation.

In 2H13, in light of further information available, the "non-recurring income from the acquisition of La7", recognized at 30 June in the amount of Euro 54.7 million, was retrospectively adjusted as a result of:

- the price adjustment of Euro 4.8 million agreed between Cairo Communication and Telecom Italia Media;
- a reduction of Euro 7.2 million in the funds initially recognized from the fair value measurement of assets and liabilities acquired.

It should be noted that IFRS 3 provides for a period of twelve months from the acquisition date for completion of the fair value measurement of assets acquired and liabilities assumed. Should new information emerge on facts and circumstances existing at the acquisition date, or additional assets and liabilities be identified during the evaluation period as defined by IFRS 3, the provisional amounts will be adjusted retrospectively.

The positive difference of Euro 57,066 thousand between the fair value of net assets acquired and the purchase price, recorded in the income statement under "non-recurring income from the acquisition of La7 S.r.l." is explained, in financial terms, primarily by the future operating losses that may be generated in the short to medium term before the restructuring plan manages to achieve full economic equilibrium.

As shown in the cash flow statement, the acquisition of La7 S.r.l. generated an increase in consolidated cash of Euro 109.2 million, the difference between net cash acquired (Euro 115 million) and the purchase price paid, which includes the price adjustment of Euro 4.8 million agreed between Cairo Communication and Telecom Italia Media (Euro 5.8 million). As explained further in Note 35, under the contract to acquire the entire share capital of La7, for a period of 24 months following acquisition, Cairo Communication undertakes to use the financial resources resulting from the contribution received from Telecom Italia Media in the exclusive interest of La7 and to restructure the company, and to not distribute dividends or reserves of La7.

From 1 May to 31 December 2013, La7 S.r.l. contributed Euro 7.8 million to consolidated revenue (Euro 77 million before intra-group eliminations) and Euro 5.8 million to consolidated net profit. The valuations made through the acquisition method resulted in a positive effect on the consolidated income statement at 31 December 2013, consisting of lower depreciation and amortization totaling Euro 16.5 million.

The consolidation of La7 S.r.l., starting from 1 January 2013, would have resulted for the year ended 31 December 2013 in further consolidated revenue of Euro 1.7 million and in a decline in EBITDA of Euro 29.1 million, equal to EBITDA in the first 4 months of 2013.

The acquisition-related charges for the subsidiary La7 S.r.l., amounting to Euro 1,917 thousand, were recognized under "non-recurring costs for services" and are attributable to fees paid during the year to advisors and to legal and financial consultants in the due diligence, negotiation and dealing stages.

11. Profit/ (loss) on investments

This item, amounting to Euro 699 thousand, refers to the gains from the sale of n. 153,000 shares held in Dmail Group. It should be noted that, at 31 December 2012, the investment was recorded at zero amount owing to its adjustment to measurement under the equity method, which had impacted negatively on the 2012 income statement in the amount of Euro 1,461 thousand.

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12. Net financial income

This item refers to financial income totaling Euro 3,391 thousand (Euro 1,615 thousand at 31 December 2012), net of financial expense of Euro 490 thousand (Euro 257 thousand at 31 December 2012), analyzed as follows:

	31/12/2013	31/12/2012
Interest income on bank and postal accounts	3,344	1,838
Other	47	34
Total financial income	**3,391**	**1,872**
Bank interest expense	(2)	(3)
Other financial expense	(488)	(254)
Total financial expense	**(490)**	**(257)**
Net financial income	**2,901**	**1,615**

Financial income includes interest on fixed-term deposits in current accounts and on treasury bank accounts used to employ liquidity. Financial income attributable to La7 S.r.l. amounted to Euro 1,941 thousand and mainly consists of interest income on bank accounts. Financial expense attributable to La7 S.r.l. amounted to Euro 246 thousand.

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13. Income tax

This item can be analyzed as follows:

	31/12/2013	31/12/2012
IRES for the year	3,946	7,414
IRAP for the year	1,790	2,055
Deferred tax income and expenses	(116)	506
Total current and deferred income tax	**5,620**	**9,975**

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:

	31/12/2013	31/12/2012
Pre-tax profit	**79,828**	**28,733**
Theoretical income tax charge (27.5%)	**21,952**	**7,902**
Tax effect of non-recurring income on the consolidated financial statements from the acquisition of La7	(15,693)	-
Other tax effects from the consolidation and the purchase price allocation of La7	(2,356)	-
Tax effect of other permanent differences	(72)	18
Irap	1,790	2,055
Income tax	**5,620**	**9,975**

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

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14. Loss from discontinued operations

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

	31/12/2013	31/12/2012
Other revenue and income	-	-
Services	(1)	(1)
Amortization, depreciation, provisions and impairment losses	-	-
Operating profit (EBIT)	**(1)**	**(1)**
Net financial income / (expense)	-	-
Loss before tax	**(1)**	**(1)**
Income tax	(5)	-
Loss from discontinued operations	**(6)**	**(1)**

With regard to the financial situation, cash absorbed by the liquidation proceedings of Diellesei in 2013 amounted to Euro 54 thousand (Euro 18 thousand in 2012).

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15. 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 four reportable business segments:

- **magazine publishing**, the Group operates as a publisher of magazines and books through its subsidiaries Cairo Editore, publisher of weeklies "Settimanale DIPIU'", "DIPIU' TV", "Diva e Donna", "TV Mia" and supplements "Settimanale DIPIU' e DIPIU'TV Cucina e Stellare", "Settimanale Nuovo", "F" "Settimanale Giallo" 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 up to 30 April 2013 and Turner Broadcasting (Cartoon Network, Boomerang, CNN), on the Internet and for the sale of stadium advertising spaces at the "Olimpico" football pitch in Turin for Torino FC;
- **TV publishing (La7),** as mentioned earlier, since 1 May 2013 following the acquisition of La7 S.r.l., the Group has operated as a TV publisher of La7 and La7d broadcasters respectively on channel 7 and channel 29 on the digital terrestrial platform;
- **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

31/12/2013	Magazine publishing	Advertising	TV publishing La7		Trovato-re	Unallocated operations	Intra-group	Total
(€ thousands)			Current operations	Non-recurring items				
Gross operating revenue	99,063	191,681	77,019	-	485	-	(91,544)	276,704
Advertising agency discounts	-	(27,190)	-	-	-	-	-	(27,190)
Net operating revenue	**99,063**	**164,491**	**77,019**	**-**	**485**	**-**	**(91,544)**	**249,514**
Change in inventory	(61)	-	-	-	-	-	-	(61)
Other revenue and income	2,381	5,539	2,391	-	1	-	(2,327)	7,985
Total revenue	**101,383**	**170,030**	**79,410**	**-**	**486**	**-**	**(93,871)**	**257,438**
Production cost	(69,867)	(152,936)	(52,726)	(1,917)	(387)	-	93,871	(183,880)
Personnel expense	(19,130)	(6,531)	(23,107)	-	(34)	-	-	(48,789)
Gross operating profit (EBITDA)	**12,399**	**10,563**	**3,577**	**(1,917)**	**64**	**-**	**-**	**24,768**
Amortization, depreciation, provisions and impairment losses	(1,323)	(2,585)	(1,698)	-	-	-	-	
Operating profit (EBIT)	**11,076**	**7,978**	**1,961**	**(1,917)**	**64**	**-**	**-**	**19,162**
Income / (loss) on investments	-	699		-	-	-	-	699
Net financial income	40	1,165	1,697		(1)	-	-	2,901
Non-recurring income from acquisition of La7 S.r.l.	-	-	-	57,066	-	-	-	57,066
Pre-tax profit	**11,116**	**9,842**	**3,658**	**55,149**	**63**	**-**	**-**	**79,828**
Income tax	(4,118)	(3,610)	2,131	-	(23)	-	-	(5,620)
Profit from continuing operations attributable to the owners of the parent	**6,998**	**6,232**	**5,789**	**55,149**	**40**	**-**	**-**	**74,208**
Profit / (loss) from discontinued operations	-	-	-	-	-	(6)	-	(6)
Profit attributable to the owners of the parent	**6,998**	**6,232**	**5,789**	**55,149**	**40**	**(6)**		**74,202**
Non-controlling interest	**-**	**-**	**-**	**-**	**8**	**-**	**-**	**8**

Figures shown for the TV publishing segment refer to the eight-month period from 1 May 2013 to 31 December 2013.

A client in the publishing segment (the publications distributor) accounts for approximately 76% of net consolidated operating revenue.

31/12/2012	Magazine publishing	Advertising	TV publishing La7		Trovato-re	Unallocated operations	Intra-group	Total
(€ thousands)			Current operations	Non-recurring items				
Gross operating revenue	109,500	230.875	-	-	343	-	(31,568)	309,150
Advertising agency discounts	-	(33,212)	-	-	-	-		(33,212)
Net operating revenue	109,500	197,663	-	-	343	-	(31,568)	275,938
Change in inventory	(38)	-		-	-	-		(38)
Other revenue and income	3,729	559	-	-	12	-		4,300
Total revenue	113,191	198,222	-	-	355	-	(31,568)	280,200
Production cost	(78,412)	(177,115)	-	-	(322)	-	31,568	(224,281)
Personnel expense	(18,816)	(5,747)	-	-	(34)	-		(24,597)
Gross operating profit (EBITDA)	**15,963**	**15,360**	**-**	**-**	**(1)**	**-**	**-**	**31,322**
Amortization, depreciation, provisions and impairment losses	(1,355)	(1,403)	-	-	15	-	-	(2,743)
Operating profit (EBIT)	**14,608**	**13,957**	**-**	**-**	**14**	**-**	**-**	**28,579**
Income / (loss) on investments	-	(1,461)	-	-	-	-	-	(1,461)
Net financial income	129	1,487		-	(1)	-	-	1,615
Non-recurring income from acquisition of La7 S.r.l.	-	-	-	-		-	-	-
Pre-tax profit	**14,737**	**13,983**	**-**	**-**	**13**	**-**	**-**	**28,733**
Income tax	(4,776)	(5,193)	-	-	(6)	-	-	(9,975)
Profit from continuing operations attributable to the owners of the parent	**9,961**	**8,790**	**-**	**-**	**7**	**-**	**-**	**18,758**
Profit / (loss) from discontinued operations	-	-	-	-	-	(1)		(1)
Profit attributable to the owners of the parent	**9,961**	**8,790**	**-**	**-**	**7**	**(1)**		**18,757**
Non-controlling interest	**-**	**-**	**-**	**-**	**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.

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16. 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:

	31/12/2013	31/12/2012
€ thousands:		
Profit from continuing operations	74,208	18,758
Profit / (loss) from discontinued operations	(6)	(1)
Profit for the year	**74,202**	**18,757**
Weighted average number of outstanding shares at 31 December 2013	78,343,400	78,343,400
Weighted average number of treasury shares	(169,976)	(420,328)
Weighted average number of shares used in the calculation of earnings per share	**78,173,424**	**77,923,072**
€ thousands:		
Earnings per share attributable to continuing operations	0.949	0.240
Earnings / (loss) per share attributable to discontinued operations	(0.000)	(0.000)
Net earnings per share	0.947	0.240

Earnings per share, excluding non-recurring income and charges from the acquisition of La7 S.r.l., amount to Euro 0.244.

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.

17. Property, plant and equipment

The movements in PPE can be analyzed as follows:

	Property	Plant and equipment	Other assets	Assets under devt.	Total
Carrying amount at 31/12/2012	**1,368**	**226**	**1,348**	**-**	**2,942**
Additions	-	124	326	-	450
Depreciation	(44)	(155)	(364)	-	(563)
Carrying amount at 31/12/2013	**1,324**	**195**	**1,310**	**-**	**2,829**

In 2013, due to the impairment of fixed assets made in the allocation of the purchase price of the investment in La7 S.r.l. described in Note 10, lower depreciation was recognized on "property, plant and equipment" in the amount of Euro 2,208 thousand.

Property, plant and equipment attributable to La7 S.r.l. amounted to Euro 16 thousand at 31 December 2013.

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18. Intangible assets

The movements in intangible assets can be analyzed as follows:

	Television rights	Concessions, licenses and trademarks	Goodwill	Titles	Assets under devt.	Total
Carrying amount at 31/12/2012	**-**	**358**	**7,198**	**1,541**	**10**	**9,107**
Additions	1,471	1,051			2,422	4,944
Amortization	(479)	(322)		(264)	-	(1,065)
Carrying amount at 31/12/2013	**992**	**1,087**	**7,198**	**1,277**	**2,432**	**12,986**

In 2013, due to the impairment of intangible assets made in the allocation of the purchase price of the investment in La7 S.r.l. described in Note 10, lower depreciation was recognized on “property, plant and equipment” in the amount of Euro 14,329 thousand.

Intangible assets attributable to La7 S.r.l. amounted to Euro 3,986 thousand at 31 December 2013 and consist mainly of television rights and related assets under development.

Television rights

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

Concessions, licenses and trademarks

At 31 December 2013, this item mainly regarded software. Additions over the year refer to the investments by La7 S.r.l., made necessary after the company’s exit from the Telecom Italia Group.

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	31/12/12	Additions	Disposals	Impairment losses	31/12/13
Publishing	4,746	-	-	-	4,746
Advertising	2,289	-	-	-	2,289
Trovatore	163	-	-	-	163
Total	**7,198**	**-**	**-**	**-**	**7,198**

At 31 December 2013, 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 2013	Discount rate 2013	Growth rate of terminal values 2012	Discount rate 2012
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 2014.

Titles

Titles include the following:

	31/12/12	Additions	Amortization	31/12/13
Bell'Italia	977	-	(164)	813
Bell'Europa	541	-	(88)	453
Other titles	23	-	(12)	11
Total	**1,541**	**-**	**(264)**	**1.277**

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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19. Investments and non-current assets

The movement in this item can be analyzed as follows:

(€ thousand)	Carrying amount at 31/12/2012	Change in scope of consolidation	Write-ups	Impairment losses	Carrying amount at 31/12/2013
		-	-	-	
Cairo Sport S.r.l.	10	-	-		10
Total subsidiaries	**10**	**-**	**-**		**10**
DMail Group S.p.A.	-		-	-	-
Effe TV S.r.l.	-	600	-	(600)	-
Auditel S.r.l.	-	46	-	-	46
Other	11	5	-	-	16
Total other	**11**	**651**	**-**	(600)	**62**
Total	**21**	**651**	**-**	**(600)**	**72**

The subsidiary Cairo Sport S.r.l., which is not consolidated as it is not considered significant, was measured at cost, which does not differ much from the amount calculated using the equity method.

At 31 December 2012, the investment held in the listed company Dmail Group S.p.A., recorded at an amount fully written down to zero, refers to n. 153,000 shares, or 10% of the share capital. During the year, the investment was gradually disposed of and all the 153,000 shares were sold, generating gains of Euro 699 thousand, recognized in the income statement under "profit / (loss) on investments".

The investee Effe TV S.r.l., set up by La7 S.r.l. (holder of a 30% stake) in October 2012, following a partnership agreement with the Feltrinelli Group, was disposed of during the year at the value of its carrying amount.

Other non-current financial assets amounted to Euro 483 thousand at 31 December 2013 (Euro 58 thousand at 31 December 2012), Euro 426 thousand of which refer to La7 S.r.l. and consist mainly of loans to employees.

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20. Deferred tax assets

These refer to the recognition, in the financial statements at 31 December 2013, of deferred tax assets on the temporary differences between the carrying amounts of recognized assets and liabilities and their tax amounts, as follows.

	31/12/2013		31/12/2012	
	Temporary differences	Tax effect	Temporary differences	Tax effect
Deferred tax assets				
Taxed allowance for impairment	10,525	2,896	9,762	2,687
Tax losses carried forward	15	4	68	19
Taxed and returned provisions for risk and charges	980	305	1,070	332
Taxed provision for inventory write-down	545	171	592	186
Directors' fees	825	227	159	44
Consolidation entries for write-off of intra-group trade relations	-	-	407	128
Consolidation entries for transfer of the intra-group sale of titles	2,092	657	2,353	739
Different accounting treatment of post-employment benefits	544	150		
Other temporary differences	656	206	583	191
Total deferred tax assets	**16,182**	**4,616**	**14,994**	**4,326**
Deferred tax liabilities				
Different accounting treatment of post-employment benefits	-	-	(138)	(38)
Different accounting treatment of land depreciation	(86)	(27)	(86)	(25)
Total deferred tax liabilities	**(86)**	**(27)**	**(224)**	**(63)**
Net deferred tax assets	**16,096**	**4,589**	**14,770**	**4,263**

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.

* * *

21. Inventories

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

	31/12/13	31/12/12	Change
Raw materials, consumables and supplies	3,564	3,475	89
Work-in-progress and bordereau	166	153	13
Finished products and books	374	229	145
Total	**4,104**	**3,857**	**247**

Inventories are stated net of the provision for inventory write-down of Euro 1,032 thousand (Euro 866 thousand at 31 December 2012).

- Raw materials

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

- Work-in-progress

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

- Finished products

  The item includes:

- Euro 154 thousand (Euro 229 thousand at 31 December 2012) related to inventories of books of Cairo Publishing S.r.l., measured at the lower of cost and estimated realizable value;
- Euro 219 thousand related to the inventories of La7 S.r.l. of TV programmes produced and awaiting to be aired at 31 December 2013, and to rights on films, soaps, cartoons and documentaries, acquired for a period of less than 12 months, whose available right has not exhausted and for which airing time during the next financial year is available.

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22. Trade receivables

Trade receivables can be analyzed as follows

	31/12/13	31/12/12	Change
Trade receivables	104,775	100,527	4,248
Allowance for impairment	(14,710)	(10,146)	(4,564)
Total trade receivables	**90,065**	**90,381**	**(316)**

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

The ageing of trade receivables by due date at 31 December 2013 versus 31 December 2012 is as follows:

31 December 2013	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	83,259	3,868	1,458	4,187	12,003	104,775
Allowance for impairment	(3,216)	(244)	(279)	(2,179)	(8,792)	(14,710)
Net trade receivables	**80,043**	**3,624**	**1,179**	**2,008**	**3,211**	**90,065**

31 December 2012	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	83,978	1,891	1,355	2,228	11,075	100,527
Allowance for impairment	(1,688)	(289)	(324)	(343)	(7,502)	(10,146)
Net trade receivables	**82,290**	**1,602**	**1,031**	**1,885**	**3,573**	**90,381**

In terms of concentration, the top 10 customers represent roughly 15% (14% in 2012) of total advertising sales, while the top 100 customers represent 58% (58% in 2012).
The publishing segment presents a limited exposure to credit risk as publishing revenue is substantially generated by one sole party – the Group - while for distribution revenue, the distribution contract, which accounts for about 76% of net consolidated operating revenue, provides for an advance payment equal to a significant percentage of the estimated sales of each magazine.

In 2013, the allowance for impairment increased with accruals of Euro 3,805 thousand from the first-time consolidation of La7 S.r.l. and of Euro 2,857 thousand from provisions for the year. Use over the period, amounting to Euro 2,098 thousand, resulted in a net increase of Euro 4,564 thousand.

At 31 December 2013, net trade receivables attributable to La7 S.r.l. amounted to Euro 4,977 thousand. Trade receivables include due from Torino Football Club S.p.A.: Euro 142 thousand to Cairo Pubblicità for contractual relations as described in Note 36, and Euro 303 thousand to Cairo Communication for administrative services provided and for various recharged expenses.

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23. Other receivables and other current assets

These can be analyzed as follows:

	31/12/13	31/12/12	Change
Prepaid IRAP	326	356	(30)
Tax assets	1,029	1,877	(848)
VAT credit	2,177	3,845	(1,668)
Total tax assets	**3,532**	**6,078**	**(2,546)**
One-off payment Sportitalia	-	1,000	(1,000)
Other prepayment	1,434	702	732
Advances to suppliers	1,909	-	1,909
Other receivables	1,494	397	1,097
Total other receivables and other current assets	**8,369**	**8,177**	**192**

Other receivables and other current assets attributable to La7 S.r.l. amounted to Euro 3,817 thousand, and consist of advances to suppliers of Euro 1,909 thousand, accrued income and prepaid expenses of Euro 693 thousand, and other receivables of Euro 1,205 thousand.

At 31 December 2012, One-off payment Sportitalia", amounting to Euro 1,000 thousand, included the residual amount of the one-off payment made in December 2009 to the publisher 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.

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24. Securities and other current financial assets

At 31 December 2013, the Group held no securities or other current financial assets.

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25. Cash and cash equivalents

The item coincides with the net financial position and can be analyzed as follows:

	31/12/13	31/12/12	Change
Bank and postal accounts	172,833	61,214	111,619
Cash	82	20	62
Total cash and cash equivalents	**172,915**	**61,234**	**111,681**

As shown in the consolidated cash flow statement, the positive change in the net financial position, amounting to Euro 111.7 million, is due primarily to the acquisition of La7 S.r.l., which resulted in an increase in cash and cash equivalents of Euro 109.2 million, which is the difference between net cash acquired (Euro 115 million) and acquisition price paid inclusive of the price adjustment (Euro 5.8 million).

Cash and cash equivalents attributable to La7 S.r.l. at 31 December 2013 amounted to Euro 115.8 million, while net working capital showed a negative figure of approximately Euro 32 million. Under the contract to acquire the entire share capital of La7, for a period of 24 months following acquisition, Cairo Communication undertakes to use the financial resources resulting from the contribution received from Telecom Italia Media in the exclusive interest of La7 and to restructure the company, and to not distribute dividends or reserves of La7 S.r.l.

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

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26. Equity

At 31 December 2013, consolidated equity was Euro 124,658 thousand, including profit for the year.
The statement of reconciliation of the Parent’s equity and profit and Group equity and profit is set out in the Directors' Report.

At their Meeting on 29 April 2013, the shareholders approved the distribution of a dividend of 0.27 Euro per share, inclusive of tax, of which Euro 0.13 per share already distributed as an interim dividend under the resolution adopted by the meeting of the Board of Directors held on 14 November 2012. The balance of the dividend, amounting to Euro 0.14 per share for a total of Euro 10.9 million, was distributed with detachment date on 13 May 2013 (payable on 16 May 2013).

The share capital at 31 December 2013 was Euro 4,074 thousand, subscribed and fully paid up, comprising n. 78,343,400 ordinary shares to which no nominal amount is attributed.

In accordance with the bylaws, the shares are registered, indivisible and freely transferable. The requirements of representation, legitimization, circulation of the company investment required for securities traded on regulated markets continue to apply. Each share has the right to a proportion of the profit which has been approved for distribution and to a portion of equity on liquidation and also has the right to vote, without limits other than those as defined by the Law. No securities 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 reconciliation between the number of outstanding shares at 31 December 2013 and at 31 December 2012 is as follows:

	31/12/2012	Purchase of treasury shares	Sale of treasury shares	31/12/2013
Ordinary shares issued	78,343,400	-		78,343,400
Less: treasury shares	(450,779)	-	450,000	(779)
Ordinary outstanding shares	**77,892,621**	**-**	**450,000**	**78,342,621**

In 2013, as part of the share buy-back plans, n. 450.000 treasury shares were sold with a carrying amount of Euro 1,344 thousand at a price of Euro 1,382 thousand, with the generation of gains of Euro 38 thousand. At 31 December 2013, Cairo Communication held a total of n. 779 residual treasury shares, subject to art. 2357 ter of the Italian Civil Code.

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27. 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:

Società	Cairo Communication	Cairo Pubblicità	Cairo Editore	La7	Cairo Pubblicità
Tipo Valutazione	TFR	TFR	TFR	TFR	Indennità suplettiva
Data valutazione	31/12/2013	31/12/2013	31/12/2013	31/12/2013	31/12/2013
Tavola di mortalità	Sim/f 1998	Sim/f 1998	Sim/f 1998	Sim/f RG48	Sim/f 1998
Abbattimento tavola di mortalità	20,00%	20,00%	20,00%	0,00%	20,00%
Tasso relativo alla richiesta dell'anticipo - DIRIGENTE	1,00%	0,50%	0,50%	3,00%	-
Tasso relativo alla richiesta dell'anticipo - QUADRO	2,00%	0,50%	2,00%	3,00%	-
Tasso relativo alla richiesta dell'anticipo - IMPIAGATO	2,00%	0,50%	2,00%	3,00%	-
Tasso relativo alla richiesta dell'anticipo - GIORNALISTA	non presente	non presente	2,00%	non presente	-
Tasso incremento delle retribuzioni - DIRIGENTE	5,00%	2,50%	0,00%	2,00%	-
Tasso incremento delle retribuzioni - QUADRO	4,00%	2,50%	0,00%	2,00%	-
Tasso incremento delle retribuzioni - IMPIEGATO	4,00%	2,50%	0,00%	2,00%	-
Tasso incremento delle retribuzioni - GIORNALISTA	non presente	non presente	0,00%	non presente	-
Tasso incremento delle retribuzioni - AGENTE	-	-	-	-	4,00%
Tasso d'inflazione futura	2,00%	2,00%	2,00%	2,00%	2,00%
Tasso di attualizzazione	3,56%	3,56%	3,56%	3,56%	4,00%
Tasso relativo alle dimissioni - DIRIGENTE	2,00%	0,50%	0,00%	curva	-
Tasso relativo alle dimissioni - QUADRO	2,00%	0,50%	5,00%	curva	-
Tasso relativo alle dimissioni - IMPIEGATO	7,00%	2,50%	6,00%	curva	-
Tasso relativo alle dimissioni - GIORNALISTA	non presente	non presente	5,00%	non presente	-
Tasso relativo alle dimissioni - AGENTE	-	-	-		15,00%

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

	31/12/2013	31/12/2012
Opening balance	**4,086**	**3,898**
Change in scope of consolidation	7,181	-
Provisions	1,102	1,079
Interest expense	457	131
Profit (loss) from actuarial valuations	370	127
Utilization/other movements	(1,364)	(1,149)
Closing balance	**11,832**	**4,086**

Post-employment benefits attributable to La7 S.r.l. amounted to Euro 7,582 thousand at 31 December 2013.

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

	31/12/2013	31/12/2012	Average
Senior managers	24	14	19
Managers	82	20	51
Employees	402	132	267
Journalists and freelance	229	124	176
Total	**737**	**290**	**513**

La7 S.r.l. employees were 428 at 31 December 2013.

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28. Non-current financial liabilities

The Group has none.

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29. Provisions for risks and charges

The provisions for risk and charges include:

	31/12/2012	Change in scope of consolidation	Effects of purchase price allocation	Increases	Utilizations	31/12/2013
Pension and similar provision	1,237	-	-	-	(40)	1,197
Provision for publishing returns	515		-	421	(515)	421
Provision for liquidation	84	-		-	(20)	64
Provisions for future risks and charges under the purchase price allocation of La7 S.r.l.	-	-	21,389	-	-	21,389
Provision for other risks and charges	443	10,786	-	1,120	(438)	11,911
Total	**2,279**	**10,786**	**21,389**	**1,541**	**(1,013)**	**34,982**

The item "changes in the scope of consolidation", amounting to Euro 10,786 thousand, refers to the first-time consolidation of La7 S.r.l. and includes provisions for risks and charges for pending litigation with social security institutions, leased staff and employees. The item also includes funds for future expenses set aside to cover the risk arising from claims for damages originated during the production and airing of TV programmes and contractual terms of stability.

As mentioned earlier, under the purchase price allocation of La7 S.r.l., a negative fair value of Euro 21,389 thousand was given to:

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

Provisions for risks and charges attributable to La7 S.r.l. at 31 December 2013 totaled Euro 32,673 thousand.

The provision for "pension and similar provision" was accrued by Cairo Pubblicità S.p.A. for the agents' termination benefits as prescribed by law and contracts, subject to actuarial valuations based on the assumptions illustrated in Note 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 charges" refers to provisions made to cover the liquidation charges of Diellesei S.r.l. in liquidation, the relevant provisions are recognized in profit/ (loss) from discontinued operations.

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30. Current loans and borrowings

At 31 December 2013, there were no “loans and borrowings”.

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31. Trade payables

Trade payables amounted to Euro 105,926 thousand, increasing by Euro 994 thousand versus 31 December 2012, and refer entirely to the current year.

Trade payables attributable to La7 S.r.l. amounted to Euro 70,395 thousand. The change versus 31 December 2012 is also explained by the fact that, at 31 December 2012, this item included Cairo Communication S.p.A. payables related to the publishers’ portion of La7, amounting to Euro 68,889 thousand. These payables to La7 were eliminated in the consolidated statement of financial position at 31 December 2013.

Trade payables include Euro 181 thousand due to the associate Torino Football Club S.p.A. for amounts accrued under the advertising concession contract signed with Cairo Pubblicità S.p.A.

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32. Receivables from and payables to the Parent

Receivables from and payables to the parent of Euro 5,583 thousand and Euro 11 thousand, respectively, refer mainly to the parent UT Communications S.p.A. and arise from the national tax consolidation scheme, under art. 117/129 of the TUIR (Consolidated income tax act), which Cairo Communication S.p.A. and its subsidiaries Cairo Editore S.p.A., Cairo Pubblicità S.p.A., Diellesei S.r.l. in liquidation, Cairo Publishing S.r.l. and La7 S.r.l. (former Cairo Due S.r.l.) have agreed to participate in.

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33. Tax liabilities

They include:

	31/12/2013	31/12/2012	Change
Withholding taxes on employees	2,056	976	1,080
Withholding taxes on contract workers	691	471	220
VAT payables	996	-	996
Other	9	4	5
Total tax liabilities	**3,752**	**1,451**	**2,301**

Tax liabilities attributable to La7 S.r.l. amounted to Euro 2,256 thousand.

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34. Other current liabilities

These can be analyzed as follows:

	31/12/2013	31/12/2012	Change
Social security charges payables	5,659	1,862	3,797
Advances on subscriptions	1,843	1,913	(70)
Shareholders' liabilities for dividends	-	1,262	(1,262)
Due to personnel (holidays, bonuses, etc.)	9,979	3,397	6,582
Accrued expenses and deferred income	624	349	275
Other liabilities	2,717	2,843	(126)
Total other current liabilities	**20,822**	**11,626**	**9,196**

The increase versus 31 December 2012 is due to the first-time consolidation of La7 S.r.l.. Other current liabilities attributable to La7 S.r.l. amounted to Euro 10,151 thousand at 31 December 2013 and consist of payables to social security institutions of Euro 3,662 thousand, due to personnel of Euro 5,713 thousand, accrued expenses and deferred income of Euro 144 thousand and other current liabilities of Euro 632 thousand.

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

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

"Other liabilities" mainly include Euro 0.2 million (Euro 0.4 million at 31 December 2012) related to the rebilling of the share of print media bad debts, the losses of which have not been fully ascertained.

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35. Commitments and risks

The agreements reached in the purchase of the entire share capital of La7 S.r.l. also included a multi-year agreement between La7 and Telecom Italia Media Broadcasting S.r.l. (TIMB) for the supply of transmission capacity that provides, among other things, the issue by Cairo Communication of a parent company guarantee to cover the payment obligations undertaken by La7, for a maximum amount of Euro 3,995 thousand (including VAT) until 31 December 2013, and Euro 6,558 thousand (including VAT) per year effective as from 1 January 2014.

The contract, signed on 6 March 2013 with Telecom Italia Media for the acquisition of the entire share capital of La7 S.r.l., also provides for:

- the buyer's commitment, for a period of 24 months (lock-up) from the date of finalization of the acquisition, not to sell, assign, transfer, dispose of in any way, in whole or in part, the investment in La7, or the business unit owning La7, without prejudice to the buyer's right, including during lock-up, to:
    - undertake a transfer or assignment to entities wholly-owned, whether directly or through other companies wholly-owned by Cairo Communication;
    - merge La7 and Cairo Due S.r.l., provided the latter, at the effective date of the merger, does not have a negative net financial position in excess of Euro 1,020 thousand;
    - constitute real rights of guarantee in favor of the lending banks on the shares of LA7 ;
    - undertake, under certain conditions, a proportional demerger of the group.

  The lock-up commitments are accompanied by a penalty clause of the amount of Euro 20 million.
- Cairo Communication's commitment, for a period of 24 months from the date of finalization of the acquisition, to use the financial resources arising from the contribution received from Telecom Italia Media in the exclusive interest and for the restructuring of La7, and the related prohibition to engage in certain transactions specified in the contract, including of an extraordinary kind, aimed at depriving La7 of the resources from the contribution to the benefit of third parties or related parties, or to make new investments.

  This commitment, as the above, is accompanied by a penalty clause, the amount of which varies depending on the transaction.

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

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

Deeming that the New Plan evaded the Council of State's ruling (seeing that it confirmed assignment to the national traditional broadcasters of numbers 0-9 in the first block of LCN numbering), Telenorba filed an appeal for compliance with ruling n. 4660/12. The appeal was upheld by the Council of State (ruling no. 6021 of 16 December 2013), which declared the New Numbering Plan void (pursuant to

Resolution 237/2013) for numbers from 8 to 9, and appointed a special commissioner tasked with verifying the correct assignment of numbers from 8 to 9 within 90 days from the beginning of the proceedings, which started on 24 February 2014. However, since the partial annulment of the previous Plan initially included number 7, on initiation of the procedure, the special commissioner - inappropriately in the opinion of La7 - also referred to number 7, which instead, under the Ruling, is not subject to verification by the Commissioner. AGCOM has in the meantime re-extended the previous Plan (based on current assignments), as also suggested in the State Council's ruling, in order to avoid a regulatory void.

As the result of a VAT audit performed on Cairo Communication S.p.A., in its report, the Guardia di Finanza (the Italian Tax Police) identified some findings for 2002 and subsequent years (2003, 2004, 2005 and 2006) relating to the application if any of VAT on dealing rights charged to media centres, which were subsequently included in the final audit reports 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 (Italian Tax Authorities) has filed an appeal with the Regional Tax Commission of Milan against these decisions. In April 2010, the Regional Tax Commission of Milan ruled in favour of the Agency's appeal regarding 2002, and in October 2011 also regarding the years 2003, 2004 and 2005, on questionable grounds. Cairo Communication has already appealed to the Court of Cassation against the judgment regarding 2002, for which the tax claim amounts to Euro 41 thousand in addition to penalties of Euro 51 thousand, and the judgment regarding the subsequent years 2003, 2004 and 2005, for which the tax claim totals Euro 247 thousand, in addition to penalties of Euro 272 thousand and interest. The tax claim for 2006 amounts to Euro 63 thousand, in addition to penalties of Euro 79 thousand and interest. Regarding this tax claim, the Company has promptly filed an appeal and, to date, the hearing has yet to be scheduled.
In June 2012, in relation to 2003, 2004, 2005 and 2006, the Company received two tax assessments demanding payment of the amounts due arising as a result of the judgment of the Regional Tax Commission, for a total claim of approximately Euro 431 thousand, including penalties and interest.

In the hearing on 4 March 2013, the Italian Tax Authorities issued an order for relief, thus acknowledging the Company's arguments, relating to the objections raised by the Authorities against Cairo Communication, illustrated in the notes to the consolidated financial statements for the year ended 31 December 2011, and relating to the use, for offsetting purposes, of payments made by Cairo

Communication in 2007, of excess IRES resulting from the income tax return for the year ended September 30, 2006.
The parties unanimously requested dismissal of the case for discontinuance of the matter at issue.

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 have filed an appeal with the Regional Tax Commission of Milan against the ruling. In its hearing on 27 May 2013, the Regional Tax Commission of Milan rejected the Agency’s Appeal. To date, the time limit to lodge the appeal before the Court of Cassation by the Office is still pending.

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.

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.

Guarantees given by third parties to the Cairo Communication Group amounted to Euro 323 thousand and are attributable to guarantees issued by banks.

It is also noted that:

- the consolidated financial statements at 31 December 2013 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.

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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 2013 with these related parties. The identification and disclosure regarding related parties were made in accordance with the IAS 24 Revised. Based on this Standard, related parties were identified as the parents, subsidiaries, associates and affiliates of the Group, as shown in the list attached to this Annual Report ("List of investments of the Group at 31 December 2013"). 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).

The effects of these transactions on the 2013 consolidated income statement of the Cairo Communication Group are as follows:

Revenue and costs (€ thousands)	**Revenue**	**Costs**	**Financial income**	**Financial expense**
Parent				
UT Communications S.p.A.	-	-	-	-
Associates				
Torino FC S.p.A.	218	2,120	-	-
Total	**218**	**2,120**	**-**	**-**

The effects of these relations on the consolidated statement of financial position of the Cairo Communication Group at 31 December 2013 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	-	5,522	-
Associates				
Torino FC S.p.A.	445	-	-	-
MP Service S.r.l.	-	47	-	-
Total	**506**	**47**	**5,522**	-

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.	-	-	11	-
Associates			-	
Torino FC S.p.A.	181	-	-	-
Total	**181**	**-**	**11**	**-**

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 2013, the relations and transactions with the parent U.T. Communications and with its subsidiaries can be analyzed as follows:

- the concession contract between Cairo Pubblicità and Torino FC S.p.A. (a subsidiary of U.T. Communications) for the sale of advertising space at the Olimpico football pitch and promotional sponsorship packages. This contract resulted in the payment in 2013 of Euro 1,988 thousand to the concession holder against total revenue of Euro 2,403 thousand net of agency discounts. Cairo Pubblicità earned further commissions of Euro 76 thousand. As part of the advertising contract, Cairo Pubblicità also purchased football tickets worth Euro 31 thousand and recharged Torino F.C. pertaining costs of Euro 42 thousand;
- the agreement between Cairo Communication S.p.A. and Torino F.C. for the provision of administrative services such as bookkeeping, which provides for an annual consideration of Euro 100 thousand;
- the agreement relating to the purchase of advertising space at the Olimpico football pitch between Cairo Editore and Torino FC., for an annual consideration of Euro 100 thousand;
- as already mentioned, Cairo Communication and its subsidiaries Cairo Editore S.p.A., Cairo Pubblicità S.p.A., Diellesei S.r.l. in liquidation, Cairo Publishing S.r.l. and La7 S.r.l. (former Cairo Due S.r.l.) participate in the national tax consolidation scheme of UT Communications S.p.A. The consolidation scheme, which governs the financial aspects of amounts paid or received in return for the advantages or disadvantages resulting from the tax consolidation, specifically provides that any greater charges or minor benefits that may accrue to the Company resulting from participation in the scheme, be suitably remunerated by the parent. In relation to this, the consolidated financial statements at 31 December 2013 include receivables from and payables to the parent UT Communications S.p.A. of Euro 5,522 thousand and Euro 11 thousand respectively.

In 2013 the Studio Magnocavallo and Associates, of which the lawyer Antonio Magnocavallo is a partner, has matured fees for professional services provided to companies of the Cairo Communication Group for approximately Euro 232 thousand.

Fees paid to directors in 2013 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 managers and/or with key management personnel, members of the Board of Statutory Auditors, and the financial reporting manager, further than the fees paid and already shown in this Note.

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

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37. <u>Risk management</u>

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

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

It is Group policy to invest available cash in on-demand or very short-term bank deposits, properly spreading the investments, essentially in banking products, with the prime objective of maintaining a ready liquidity of the said investments. 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 2013, a one percentage point reduction in the interest rate would result in a reduction in annual financial income of approximately Euro 1.7 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 15% (14% in 2012) of total sales, whilst the top 100 customers represent 58% (58% in 2012). These ratios are basically in line with prior years.

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

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

The Group's maximum theoretical exposure to credit risks at 31 December 2013 is given by the carrying amount of trade receivables and other recognized current assets totaling Euro 103.7 million (103.3 million at 31 December 2012), and by the nominal amount of guarantees given on third-party debts or commitments as indicated in Note 35.

The credit risks associated with cash and cash equivalents, with a maximum theoretical exposure of Euro 172.9 million (Euro 61.2 million at 31 December 2012), 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 2013, to Directors, Statutory Auditors, General Managers and key management personnel, in the Parent and in subsidiaries, analyzed in detail in the Remuneration Report, prepared pursuant to art. 123 ter of the TUF:

Name	Position	Term of office	Term expiry date	Fees *	Benefits in kind	Bonuses and other incentives	Other fees**
Urbano R. Cairo	Chairman BoD	Jan-Dec 2013	31/12/2013	500	16	-	505
Uberto Fornara	CEO	Jan-Dec 2013	31/12/2013	380	4	-	405
Roberto Cairo	Director	Jan-Dec 2013	31/12/2013	20	-	-	-
Marco Janni	Director	Jan-Dec 2013	31/12/2013	34	-	-	-
Antonio Magnocavallo	Director	Jan-Dec 2013	31/12/2013	34	-	-	-
Marco Pompignoli	Director	Jan-Dec 203	31/12/2013	610	4	-	295
Roberto Rezzonico	Director	Jan-Dec 2013	31/12/2013	40	-	-	-
Mauro Sala	Director	Jan-Dec 2013	31/12/2013	32	-	-	-
Key management personnel	N/A	Jan-Dec 2013	N/A	-		12	1,164

Marco Moroni	Chairman Board of Statutory Auditors	Jan-Dec 2013	31/12/2013	30	-	-	31
Mariapia Maspes	Standing auditor	Jan-Dec 2013	31/12/2013	20	-	-	20
Marco Giuliani	Standing auditor	Jan-Dec 2013	31/12/2013	20	-	-	-

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

- *Urbano Cairo: fees pursuant to art. 2389, paragraph 3, Italian Civil Code (Euro 480 thousand);*
- *Uberto Fornara: fees pursuant to art. 2389, paragraph 3, Italian Civil Code (Euro 360 thousand);*
- *Marco Janni: fees for attendance in meetings of the Remuneration Committee and Related Party Committee (Euro 14 thousand);*
- *Antonio Magnocavallo: fees for attendance in meetings of the Remuneration Committee and the Control and Risk Committee (Euro 14 thousand);*
- *Marco Pompignoli: fees pursuant to art. 2389, paragraph 3, Italian Civil Code (Euro 590 thousand);*
- *Roberto Rezzonico: fees for attendance in meetings of the Remuneration Committee, Control and Risk Committee and Related Party Committee (Euro 20 thousand);*
- *Mauro Sala: fees for attendance in meetings of the Risk and Control Committee and the Related Party Committee (Euro 12 thousand)*

*** Other fees refer to:*

- *Urbano Cairo: fees for his duties performed for Cairo Editore (Euro 500 thousand) and other companies of the Group (Euro 5 thousand).*
- *Uberto Fornara: gross fees as senior manager payable by Cairo Communication (Euro 300 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 200 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 880 thousand comprising gross remuneration as manager) and variable incentive components amounting to Euro 184 thousand.*

At their meeting of 29 April 2013, the shareholders of the Parent approved the 2013 remuneration policy, as illustrated in Section 1 of the Remuneration Report, drawn up pursuant to art. 123-ter of Legislative Decree 58/1998 and 84 quater of the Issuers' Regulations and approved by the Board of Directors on 19 March 2013.

At its meeting on 19 March 2013, 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, the Board of Directors resolved, for financial year 2013, on 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.

At its meeting on 13 November 2013, 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, the Board of Directors resolved on a variable fee mechanism for CEO Uberto Fornara in 2013, partly in the form of a bonus and partly in the form of incentive, the former amounting to Euro 250 thousand, in addition to the resolutions previously adopted at Group level, and the latter, totally in the form of incentive, based on the performance of key Group advertising revenue in the last quarter of 2013.

At its meeting on 18 December 2013, on the proposal of the Remuneration Committee and the favourable opinion of the Related Party Committee, the Board of Directors resolved to reward Marco Pompignoli with a bonus of Euro 500 thousand gross for his contribution to the acquisition of La7 S.r.l., working side

by side with the Chairman during the study, set-up and accomplishment of a transaction considered of exceptional significance in terms of strategic relevance.
Under the decisions adopted at its Meeting on 13 November 2013, based on the 2013 final results, the Board of Directors acknowledged a variable fee of Euro 50 thousand to Uberto Fornara.

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 Parent and the directors for any indemnity in the event of resignation or unjust dismissal, or in the event their employment relationship ceases following a takeover bid;
- there are agreements in place between the Parent and Uberto Fornara, subject to non-competition commitments in the year following termination of his employment with the Parent, 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 2013, key management personnel of the Cairo Communication Group was composed of:

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

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

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

Pursuant to Consob Communication of 28 July 2006 n. DEM/6064296, it should be noted that in 2013 the Cairo Communication Group did not engage in any atypical and/or unusual transactions as defined by the above Communication. Mention must be made that on 30 April 2013 the Cairo Communication Group finalized the acquisition of the entire share capital of La7 S.r.l.. The transaction, which is considered non-recurring by nature and relevant amount, generated non-recurring income and charges respectively of Euro 57,066 thousand and Euro 1,917 thousand as discussed in Note 10 above.

For the Board of Directors
Chairman Urbano R. Cairo

Cairo Communication S.p.A.

Consolidated Financial Statements at 31 December 2013 – Appendices

APPENDIX 1

CAIRO COMMUNICATION GROUP COMPANIES

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

Company	Registered office	Quota capital at 31/12/12	% 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 (*)
La 7 S.r.l. (former Cairo Due S.r.l.)	Rome	1,020	100	31/12	TV advertising	Full from 30 April 2013
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

(*) 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 Audit Firm.

€ thousands	**Services provided by**	**Fees for the year**
Audit		
Parent - Cairo Communication S.p.A.		
	KPMG S.p.A.	75
Subsidiaries		
- Cairo Pubblicità S.p.A.	KPMG S.p.A.	35
- Cairo Editore S.p.A.	KPMG S.p.A.	60
- La7 S.r.l.	KPMG S.p.A.	75
Certification		
Other		
Parent - Cairo Communication S.p.A. (*)	KPMG S.p.A.	26
La7 S.r.l. (**)	KPMG S.p.A.	24

* Audit related to the recognition of the acquisition of La7 S.r.l. ("business combination") pursuant to IFRS 3 at 30 April 2013
** Audit related to the first-time consolidation of La7 S.r.l. at 30 June 2013

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 Italian Civil Code

Shareholders,
pursuant to art. 2429 of the Italian 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 2013, we performed the oversight duties prescribed by law (art. 148 *et seq* of the above-mentioned Legislative Decree), taking also into account the standards of conduct recommended by the Italian Association of Public Accountants and Accounting Professionals, and the relevant instructions provided by CONSOB communications.

We remind you that the Board of Statutory Auditors in office, appointed by the Shareholders' Meeting of 28 April 2011, pursuant to art. 26 of the bylaws, which incorporates the provisions of law on listed companies regarding the appointment of members of the Board of Statutory Auditors based on lists submitted by shareholders, ends its term of office on approval of the financial statements for the year ended 31 December 2013 by the Shareholders' Meeting, which is called to renew the company body in accordance with the above statutory and regulatory provisions.

The above being stated, these are the results of the prescribed oversight duties performed during the year:

- we attended the Shareholders' Meetings and those of the Board of Directors held during the year, receiving from the Directors, in accordance with their obligations to report to the Board of Statutory Auditors, under art. 150, paragraph 1, of Legislative Decree n. 58/1998, timely and appropriate information on the overall business performance and outlook, and the most relevant transactions, in terms of size and nature, made by the Company and its subsidiaries;

- to the extent of our responsibilities, we gathered information on compliance with the law and bylaws, and oversaw compliance with the principles of proper governance and appropriateness of the Company's organizational structure, through direct observation, through information gathered from the managers of the departments involved, through regular exchange of information with the Audit Firm tasked with the statutory audit of the separate and consolidated financial statements, and by attending the meetings of the Control and Risks Committee, the Remuneration Committee and the Supervisory Body;

- we oversaw the operation and effectiveness of the internal control systems and the adequacy of the administrative-accounting system and, specifically, its reliability to properly illustrate operational events;
- pursuant to art. 19 of Legislative Decree n. 39/2010, we conducted oversight duties provided therein on: a) the disclosure of financial information; b) effectiveness of the internal control, internal audit and risk management systems; c) the statutory audit of the separate and consolidated financial statements; d) independence of the Audit Firm, through direct observation, information gathered from the managers of the departments involved, and by analyzing the results of the work performed 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; we received from the Audit Firm 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 the above Decree; we analyzed, again pursuant to art. 17, paragraph 9, lett. a) of the above Decree, the risks regarding independence of the Audit Firm and the measures it adopted to constrain such risks;
- we controlled the proper operation of the audit system on Group companies and the appropriateness of instructions given to them, pursuant also to art. 114, paragraph 2, of Legislative Decree n. 58/1998;
- we took note of the preparation of the Remuneration Report, pursuant to art. 123 *ter* of Legislative Decree n. 58 of 24 February 1998, and to art. 84 *quater* of CONSOB Regulations 11971/1999 (“**Issuers’ Regulations**”), with no particular issues to report;
- we controlled the implementation processes of corporate governance rules provided by the Corporate Governance Code of Listed Companies issued by Borsa Italiana S.p.A., as adopted by the Company;
- we oversaw compliance of the internal procedure regarding related-party transactions with the principles contained in the Regulations approved by CONSOB through resolution n. 17221 of 12 March 2010 and subsequent amendments, and compliance with the above Regulations, pursuant to art. 4, paragraph 6;
- we 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 n. 11971 of 14 May 1999 and subsequent amendments and supplements thereto;

- assessed the adequacy, from a methodological point of view, of the process put in place by the Company for the accounting of the amounts recognized in the financial statements following the acquisition of La7 S.r.l., in accordance with IFRS 3;
- verified that the Directors' Report for 2013 complies with the laws and regulations, consistent with the resolutions adopted by the Board of Directors and with the facts illustrated in the separate and consolidated financial statements. The consolidated half-year report required no comments from the Board of Statutory Auditors. The half-year report and quarterly reports were published in accordance with the law and regulations currently in force.

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 major equity and financial relevance made during the period, also through subsidiaries, to verify that they were made in compliance with the law and bylaws and that they were neither imprudent or such as to jeopardize the integrity of corporate assets.

   In this regard, more specifically, mention must be made that on 30 April 2013, Cairo Communication completed the acquisition of La7 S.r.l. through the subsidiary Cairo Due. Starting from May 2013, the Cairo Group began implementing a restructuring plan for La7 S.r.l., with the aim of recovering profitability and efficiency. The effects are already noticeable and are shown in the consolidated financial statements submitted for your attention.

   We certify, therefore, that to the best of our knowledge, the above transactions were based on principles of proper governance and that the issues regarding potential or possible conflicts of interest were carefully assessed.

2. The characteristics of intra-group and related-party transactions put in place in 2013, the parties involved and the relating financial effects were appropriately explained in section 12 “Related-Party Transactions” in the consolidated financial

statements for the year ended 31 December 2013, to which reference is made. In this regard, the Board, in the course of its work, did not identify any atypical and/or unusual transactions made during the year with third and/or related parties. Mention must be made that, on 11 November 2010, the Board of Directors of the Company, under CONSOB Resolution n. 17221 of 12 March 2010 and subsequent amendments and supplements, had adopted new internal procedures governing the decision-making process and the required disclosures regarding related-party transactions (the "**Procedures**"), which came into effect as from 1 January 2011.

Pursuant to art. 4, paragraph 6 of the CONSOB Regulations approved by the above resolution n. 17221/2010, we oversaw:

i) compliance of the procedures adopted by the Company with the principles contained in the above regulations and their observance;

ii) fairness and correspondence of intra-group and related-party transactions with the interests of the Company.

3. In our view, the information provided by the Directors in their Report, pursuant to art. 2428 of the Italian Civil Code (Directors' Report), regarding atypical and/or unusual transactions and ordinary transactions, under the previous point, is to be considered exhaustive and complete.

4. KPMG S.p.A., the Audit Firm tasked with performing statutory audit, with which we held regular meetings during the year, today (7 April 2014) issued the Reports under art. 14 of Legislative Decree n. 39/2010, certifying that the separate and consolidated financial statements for the year ended 31 December 2013 are drawn up clearly and give a true and fair view of assets, liabilities, financial position, results of operations and other components of comprehensive income, changes in equity and cash flows of the Company and the Group, and certifying that the Directors' Report and the disclosures under art. 123-*bis*, paragraph 4, of Legislative Decree n. 58/1998 are consistent with the separate financial statements of the Company and with the consolidated financial statements of the Group. These reports do not contain any issues of note or explanatory comments.

5. In 2013, the Board received no complaints, pursuant to art. 2408 of the Italian Civil Code.

6. In 2013, the Board received no complaints from third parties.

7. In 2013, the Company assigned KPMG S.p.A. additional non-recurring tasks, as part of its statutory audit duties, regarding the purchase price allocation process and further audit work regarding the changed scope of consolidation following the acquisition of La7 S.r.l.. For these additional tasks, the Firm received a fee of Euro 49,500.00 (fortyninethousandfivehundred/00)
8. There are no reports of tasks assigned to subjects that are part of the "network" of the Audit Firm KPMG S.p.A..
9. In 2013, the Board issued its opinion as prescribed by law on the determination of compensation to managers holding strategic responsibilities, as established by the Board of Directors on the proposal of the Remuneration Committee.
10. In 2013, the Board of Directors met seven times, the Control and Risks Committee four times and the Board of Statutory Auditors five times. The Remuneration Committee met three times in 2013, while the Related Party Committee met only once.
11. The Board of Statutory Auditors acquired knowledge and oversaw compliance with the law and bylaws and observance of the principles of proper governance, ensuring that actions decided and taken by the Directors complied with the law 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.
12. With regard to the adequacy of the organizational structure of the Company and of the Group, the oversight duties of the Board of Statutory Auditors were performed by acquiring knowledge of the organizational structure through information gathered from each area, through meetings with the managers of the various departments and with the Audit Firm as part of a regular exchange of data and information.
13. The Board acquired knowledge and oversaw the adequacy and effectiveness of the internal control system, pursuant also to art. 19 of Legislative Decree 39/2010, through regular meetings with the Director in charge of the internal control system and with the internal audit manager, and through the presence of the Chairman of the Board of Statutory Auditors at the meetings of the Control and Risks Committee

and of all the members of the Board at the meetings with the Model 231/2001 Supervisory Body.

14. The Board also oversaw the adequacy and reliability of the administrative-accounting system to properly illustrate operational events, through direct observation, through information received by the managers of the departments involved, by examining company documents and by analyzing the results of the work performed by the Audit Firm.
15. The Board controlled the operation of the control system over subsidiaries and the adequacy of the instructions given to the subsidiaries by the Company, pursuant to art. 114, paragraph 2, of Legislative Decree n. 58/98, in order for the Group companies to provide the required information to comply with statutory disclosure obligations. No exceptions were reported in this regard.
16. During the regular meetings held by the Board of Statutory Auditors with the Audit Firm, pursuant to art. 150, paragraph 3, of Legislative Decree n. 58/1998, no relevant issues emerged that need to be mentioned in this Report.
17. The Board also controlled the implementation processes of corporate governance rules prescribed by the Corporate Governance Code of Listed Companies issued by Borsa Italiana S.p.A., as adopted by the Company;
18. With regard to the oversight duties performed as mentioned above, there were no omissions, reprehensible facts or irregularities reportable to the competent authorities and/or the supervisory boards, or worthy of mention in this Report.
19. Finally, the Board of Statutory Auditors performed its own assessments on compliance with the rules of law regarding the preparation of the draft separate financial statements and consolidated financial statements of the Group for the year ended 31 December 2013, of the relating explanatory notes and the Directors' Report attached thereto, either directly, assisted by department managers or through information received from the Audit Firm.

    Specifically, it is acknowledged that the separate and consolidated financial statements of Cairo Communication S.p.A. for the year ended 31 December 2013 were prepared in accordance with the "International Financial Reporting Standards" (IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Union, and in accordance with the provisions issued in implementation of art. 9 of Legislative Decree n. 38/2005.

Based on the foregoing considerations, with regard to the oversight duties performed during the year, the Board of Statutory Auditors has no remarks to make, pursuant to art. 153 of Legislative Decree n. 158/1998, to the extent of its responsibilities, on the separate and consolidated financial statements, and on the explanatory notes and Directors' Report, agreeing with the proposal of the Board of Directors to allocate profit for the year, and with the proposal to distribute dividends, contained in the Directors' Report to the IAS/IFRS separate financial statements of Cairo Communication S.p.A.

Milan 7 April 2014

Board of Statutory Auditors

Marco Moroni (Chairman)

Marco Giuliani

Maria Pia Maspes

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

ANNEX TO THE REPORT OF THE BOARD OF STATUTORY 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 Italian 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
Marco Moroni (Chairman of the Board of Statutory Auditors)			
1	Aston & Cooper Srl	Chairman of the Board of Statutory Auditors	31/12/2013
2	Betfair Italia Srl	Statutory Auditor	30/04/2015
3	Cairo Communication Spa	Chairman of the Board of Statutory Auditors	31/12/2013
4	Cairo Editore Spa	Chairman of the Board of Statutory Auditors	31/12/2013
5	Cairo Pubblicità	Chairman of the Board of Statutory Auditors	31/12/2015
6	Caseificio del Cigno	Statutory Auditor	31/12/2014
7	Dataprocess Holding Spa	Statutory Auditor	31/12/2013
8	D-Mail Group Spa	Chairman of the Board of Statutory Auditors	31/12/2015
9	Elettrodelta Spa In Liquidazione	Statutory Auditor	31/12/2014
10	La7 Srl	Statutory Auditor	31/12/2015
11	Locauto Rent Spa	Statutory Auditor	31/12/2015
12	Locauto Spa	Statutory Auditor	31/12/2015
13	Publicitas International Spa	Statutory Auditor	31/12/2015
14	Revicom Srl	Chairman of the Board of Directors	Until revocation
15	Sony Music Entertainment Italy Spa	Statutory Auditor	31/03/2016
16	Ut Communications Spa	Chairman of the Board of Statutory Auditors	31/12/2013
	Number of positions held in issuing companies	**2**	
	Total number of positions held	**16**	

N.	Company Name	Position	Until approval of the financial statements
Maria Pia Maspes (Statutory Auditor)			
1	Cairo Communication Spa	Statutory Auditor	31/12/2013
2	Cairo Pubblicità Spa	Statutory Auditor	31/12/2015
3	Cairo Editore Spa	Statutory Auditor	31/12/2013
4	UT Communications Spa	Statutory Auditor	31/12/2013
5	Torino FC Spa	Statutory Auditor	31/12/2013
6	LA7 Srl	Statutory Auditor	31/12/2015
7	Caminetti Montegrappa Srl	Chairman of the Board of Statutory Auditors	31/12/2015
8	G.B.H Spa	Statutory Auditor	31/12/2015
9	Alto Partnes SGR Spa	Statutory Auditor	31/12/2015
10	Italholding Spa	Statutory Auditor	31/12/2015
11	MAB Spa	Statutory Auditor	31/12/2014
12	Eurofly services	Statutory Auditor	31/12/2013
13	Loellum Consorzio di Cooperative - Cooperativa sociale	Statutory Auditor	31/12/2014
14	Kelly service Spa	Statutory Auditor	31/12/2014
15	Aliserio Srl	Statutory Auditor	31/12/2014
	Number of positions held in issuing companies	**1**	
	Total number of positions held	**15**	

N.	Company Name	Position	Until approval of the financial statements
Marco Giuliani (Statutory Auditor)			
1	Cairo Communication Spa	Statutory Auditor	31/12/2013
2	Ali Spa	Statutory Auditor	31/08/2015
3	Banca Esperia Spa	Statutory Auditor	31/12/2014
4	Banca Mediolanum Spa	Statutory Auditor	31/12/2014
5	Hotel Cipriani Srl	Statutory Auditor	31/12/2013
6	Hotel Caruso Srl	Single Statutory Auditor	31/12/2014
7	Hotel Splendido Srl	Statutory Auditor	31/12/2013
8	Mediolanum Gestione Fondi Spa	Statutory Auditor	31/12/2015
9	Rothschild Italia Spa	Statutory Auditor	31/03/2016
10	Yara Italia Spa	Statutory Auditor	31/12/2014
11	Bg Italia Power Spa	Statutory Auditor	31/12/2014
12	Space Spa	Statutory Auditor	31/12/2015
13	Tioxide Europe Srl	Statutory Auditor	31/12/2015

Number of positions held in issuing companies	**1**	
Total number of positions held	**13**	

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI

Telefono +39 02 6763.1
Telefax +39 02 67632445
e-mail it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(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 2013, 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 dated 5 April 2013 for our 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 2013 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 2013, 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 2013.

Milan, 7 April 2014

KPMG S.p.A.

(signed on the original)

Francesco Spadaro
Director

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

1. The undersigned Urbano Roberto Cairo, as Chairman of the Board of Directors, and Marco Pompignoli, as Financial Reporting Manager of Cairo Communication S.p.A., also in accordance with art. 154 bis, paragraphs 3 and 4 of Legislative Decree n. 58 of 24 February 1998, certify:

• the adequacy of the characteristics of the Parent and

• the effective application of administrative and accounting procedures for the preparation of the 2013 consolidated financial statements.

2. We also certify that

2.1 the consolidated financial statements at 31 December 2013:

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, 11 March 2014

For the Board of Directors Chairman	Financial Reporting Manager
………………………………………..	………………………………………….
…………………………………..	
(Urbano Roberto Cairo)	(Marco Pompignoli)

CAIRO COMMUNICATION

Cairo Communication S.p.A.
Separate financial statements at 31 December 2013

Income statement for the year ended 31 December 2013

Euro	Notes	31 December 2013	31 December 2012
Revenue	1	121,047,452	137,098,994
Other revenue and income	2	1,216,642	133,175
Services	3	(111,617,002)	(124,547,285)
Use of third-party assets	3	(677,301)	(638,265)
Personnel expense	4	(2,844,105)	(2,749,962)
Amortization, depreciation, provisions and impairment losses	5	(271,773)	(213,079)
Other operating costs	3	(180,865)	(60,913)
Operating profit		**6,673,048**	**9,022,665**
Net financial income	6	1,016,159	1,283,763
Income (expense) from investments	7	13,173,806	14,241,240
Pre-tax profit		**20,863,013**	**24,547,668**
Income tax	8	(2,797,390)	(3,485,739)
Profit from continuing operations		**18,065,623**	**21,061,929**
Profit/loss from discontinued operations	9	(4,787)	0
Profit for the year		**18,060,836**	**21,061,929**

Statement of comprehensive income for the year ended 31 December 2013

	31 December 2013	31 December 2012
Profit for the year	**18,060,836**	**21,061,929**
Other non-reclassifiable items of the comprehensive income statement		
Actuarial gains (losses) from defined benefit plans	(96,834)	-
Tax effect	26,629	-
Total comprehensive income for the year	**17,990,631**	**21,061,929**

Statement of financial position

Euro

Assets	**Notes**	**31 December 2013**	**31 December 2012**
Property, plant and equipment	10	547,958	519,675
Intangible assets	11	357,256	158,511
Investments	12	17,614,037	14,031,785
Receivables from subsidiaries	13	-	386,457
Other non-current financial assets	13	12,596	12,570
Deferred tax assets	14	493,402	488,277
Total non-current assets		**19,025,249**	**15,597,275**
Trade receivables	15	535,288	1,175,160
Receivables from parents	23	649,344	836,398
Receivables from subsidiaries	16	76,414,827	72,342,958
Other receivables and other current assets	17	1,055,941	3,916,363
Cash and cash equivalents	18	35,690,269	45,426,386
Total current assets		**114,345,669**	**123,697,265**
Total assets		**133,370,918**	**139,294,540**

Equity and liabilities		**31 December 2013**	**31 December 2012**
Share capital	19	4,073,857	4,073,857
Share premium reserve	19	44,153,763	44,153,763
Retained earnings	19	494,071	494,693
Other reserves	19	1,056,508	1,056,508
Treasury shares	19	(2,352)	(1,346,502)
Interim dividend	19	0	(10,126,041)
Profit for the year	19	18,060,836	21,061,929
Total equity		**67,836,683**	**59,368,207**
Post-employment benefits	20	1,008,145	858,539
Provisions for risks and charges	21	337,382	149,178
Total non-current liabilities		**1,345,527**	**1,007,717**
Trade payables	22	3,604,153	72,822,552
Payables to subsidiaries	24	58,253,282	2,172,179
Tax liabilities	25	227,066	260,542
Other current liabilities	26	2,104,206	3,663,343
Total current liabilities		**64,188,707**	**78,918,616**
Total liabilities		**65,534,234**	**79,926,333**
Total equity and liabilities		**133,370,918**	**139,294,540**

Statement of cash flows

€ thousands	2013	2012
CASH AND CASH EQUIVALENTS	**45.426**	**37.476**
OPERATING ACTIVITIES		
Profit for the year	18.061	21.062
Amortization, depreciation, provisions and impairment losses	272	213
Impairment losses on investments	357	1.439
Net financial income	(14.547)	(16.964)
Income tax	2.797	3.486
Change in post-employment benefits	150	98
Change in provisions for risks and charges	188	0
Cash flow from operating activities before changes in working capital	**7.278**	**9.333**
(Increase) decrease in trade and other receivables	9.182	4.533
Increase (decrease) in trade and other payables	(14.697)	1.206
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	**1.763**	**15.072**
Income tax paid	(2.649)	(2.620)
Financial expense paid	(121)	(91)
TOTAL NET CASH FROM OPERATING ACTIVITIES (A)	**(1.007)**	**12.361**
INVESTING ACTIVITIES		
Acquisition (disposal) of PPE and intangible assets	(499)	(392)
Interest and financial income received	1.512	1.375
Dividends received	3.402	15.680
Net increase in other non-current assets	(3.553)	(301)
NET CASH USED IN INVESTING ACTIVITIES (B)	**862**	**16.362**
FINANCING ACTIVITIES		
(Acquisition) disposal of treasury shares	1.383	(214)
Re-measurement of defined benefit plans inclusive of tax effect	(70)	
Dividends paid	(10.905)	(20.559)
NET CASH USED IN FINANCING ACTIVITIES (C)	**(9.592)**	**(20.773)**
NET CASH FLOW OF THE YEAR (A) + (B) + (C)	**(9.737)**	**7.950**
CLOSING CASH AND CASH EQUIVALENTS	**35.690**	**45.426**

Statement of changes in equity

€ thousands	Share capital	Share premium reserve	Retained earnings	Other reserves	Treasury shares	Reserve for available-for-sale financial assets	Interim dividend	Profit for the year	Equity
Balance 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
Profit/(loss) on available-for-sale financial assets						(8)			(8)
Interim dividend 2011							(11.696)		(11.696)
Profit for the year								19.258	19.258
Balance at 31 December 2011	**4.074**	**48.288**	**494**	**1.057**	**(1.132)**	**0**	**(11.696)**	**19.258**	**60.343**
Allocation of profit			19.258					(19.258)	0
Dividend distribution		(4.134)	(19.258)				11.696		(11.696)
Interim dividend 2012							(10.126)		(10.126)
Purchase of treasury shares					(214)				(214)
Profit for the year								21.062	21.062
Balance at 31 December 2012	**4.074**	**44.154**	**494**	**1.057**	**(1.346)**	**0**	**(10.126)**	**21.062**	**59.369**
Allocation of profit			21.062					(21.062)	0
Dividend distribution			(21.031)				10.126		(10.905)
Actuarial gains (losses) from defined benefit plans			(70)					70	0
Disposal of treasury shares			39		1.344				1.383
Total comprehensive income for the year								17.991	17.991
Balance at 31 December 2013	**4.074**	**44.154**	**494**	**1.057**	**(2)**	**0**	**0**	**18.061**	**67.837**

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

Euro	31 December 2013	Related parties (*)	% of total	31 December 2012	Related parties (*)	% of total
Revenue	121.047.452	121.003.937	100,0%	137.098.994	137.055.816	100,0%
Other revenue and income	1.216.642			133.175		
Services	(111.617.002)	(104.757.536)	93,9%	(124.547.285)	(107.600)	0,1%
Use of third-party assets	(677.301)			(638.265)		
Personnel expense	(2.844.105)			(2.749.962)		
Amortization, depreciation, provisions and impairment lo	(271.773)			(213.079)	(27.326)	12,8%
Other operating costs	(180.865)			(60.913)		
Operating profit	**6.673.048**			**9.022.665**		
Net financial income	1.016.159	1.192	0,1%	1.283.763	2.048	0,2%
Income (loss) on investments	13.173.806	13.155.835	99,9%	14.241.240	14.241.240	100,0%
Pre-tax profit	**20.863.013**			**24.547.668**		
Income tax	(2.797.390)			(3.485.739)		
Profit from continuing operations	**18.065.623**			**21.061.929**		
Profit (loss) from discontinued operations	(4.787)			0		
Profit for the year	**18.060.836**			**21.061.929**		

(*) Related party transactions are analyzed in Note 28

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

Euro Assets	31 December 2013	Related parties (*)	% of total	31 December 2012	Related parties (*)	% of total
Property, plant and equipment	547.958			519.675	17.580	3,4%
Intangible assets	357.256			158.511	-	
Investments	17.614.037	17.614.037	100,0%	14.031.785	14.031.785	100,0%
Receivables from subsidiaries	-			386.457	386.457	100,0%
Non-current financial assets	12.596			12.570		
Deferred tax assets	493.402			488.277		
Total non-current assets	**19.025.249**			**15.597.275**		
Trade receivables	535.288	302.750	56,6%	1.175.160	360.300	30,7%
Receivables from parents	649.344	649.344	100,0%	836.398	836.398	100,0%
Receivables from subsidiaries	76.414.827	76.414.827	100,0%	72.342.958	72.342.958	100,0%
Other receivables and other current assets	1.055.941			3.916.363		
Cash and cash equivalents	35.690.269			45.426.386		
Total current assets	**114.345.669**			**123.697.265**		
Total assets	**133.370.918**			**139.294.540**		
Equity and liabilities	**31 December 2013**			**31 December 2012**		
Share capital	4.073.857			4.073.857		
Share premium reserve	44.153.763			44.153.763		
Retained earnings	494.071			494.693		
Other reserves	1.056.508			1.056.508		
Treasury shares	(2.352)			(1.346.502)		
Interim dividend	0			(10.126.041)		
Profit for the year	18.060.836			21.061.929		
Total equity	**67.836.683**			**59.368.207**		
Post-employment benefits	1.008.145			858.539		
Provisions for risks and charges	337.382	127.645	37,8%	149.178	149.178	100,0%
Total non-current liabilities	**1.345.527**			**1.007.717**		
Trade payables	3.604.153	16.554	0,5%	72.822.552	16.553	
Payables to subsidiaries	58.253.282	58.253.282	100,0%	2.172.179	2.172.179	100,0%
Tax liabilities	227.066			260.542		
Other current liabilities	2.104.206			3.663.343	1.261.650	34,4%
Total current liabilities	**64.188.707**			**78.918.616**		
Total liabilities	**65.534.234**			**79.926.333**		
Total equity and liabilities	**133.370.918**			**139.294.540**		

(*) Related party transactions are analyzed in Note 28

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

€ thousands	31 December 2013	Related parties	31 December 2012	Related parties
CASH AND CASH EQUIVALENTS	**45,426**		**37,476**	
OPERATING ACTIVITIES				
Profit for the year	18,061	29,403	21,062	151,164
Amortization, depreciation, provisions and impairment losses	272		213	27
Impairment losses on investments	357	7	1,439	1,439
Net financial income	(14,547)	(13,156)	(16,964)	(15,682)
Income tax	2,797		3,486	
Change in post-employment benefits	150		98	
Change in provisions for risks and charges	188	22	0	
Cash flow from operating activities before changes in working capital	**7,278**	**16,276**	**9,333**	**136,948**
(Increase) decrease in trade and other receivables	9,182	(3,827)	4,533	6,153
Increase (decrease) in trade and other payables	(14,697)	54,819	1,206	(108)
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	**1,763**	**67,268**	**15,072**	**142,993**
Income tax paid	(2,649)		(2,620)	
Financial expense paid	(121)		(91)	
TOTAL NET CASH FROM OPERATING ACTIVITIES (A)	**(1,007)**	**67,268**	**12,361**	**142,993**
INVESTING ACTIVITIES				
(Acquisition) disposal of PPE and intangible assets	(499)		(392)	
Interest and financial income received	1,512		1,375	2
Dividends received	3,402	3,402	15,680	15,680
Net increase in other non-current assets	(3,553)	386	(301)	(301)
NET CASH USED IN INVESTING ACTIVITIES (B)	**862**	**3,788**	**16,362**	**15,381**
FINANCING ACTIVITIES				
(Acquisition) disposal of treasury shares	1,383		(214)	
Re-measurement of defined benefit plans inclusive of tax effect	(70)			
Dividends paid	(10,905)		(20,559)	
NET CASH USED IN FINANCING ACTIVITIES (C)	**(9,592)**	**0**	**(20,773)**	**0**
CASH FLOW OF THE YEAR (A)+(B)+(C)	**(9,737)**	**71,056**	**7,950**	**158,374**
CLOSING CASH AND CASH EQUIVALENTS	**35,690**		**45,426**	

NOTES TO THE SEPARATE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2013

Main activities

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

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

In 2013, Cairo Communication acquired the entire share capital of La7 S.r.l. from Telecom Italia Media. The transaction was completed on 30 April 2013 through its subsidiary Cairo Due S.r.l., and from that date, La7 S.r.l. was included in the scope of consolidation of the Cairo Communication Group.

Effective 1 August 2013, Cairo Due incorporated La7 and concurrently changed its name to La7 S.r.l.

Following the acquisition, the Cairo Communication Group started operations in the TV (La7, La7d) and Internet (La7.it, La7.tv, TG.La7.it) publishing field, with the upstream integration of its concessionaire business for the sale of television advertising space, diversifying its publishing activities previously focused on magazines.

The 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 managed at Cairo Editore, at 55 Corso Magenta, Milan. The publishing business of La7 is managed mainly in Rome at the registered offices and the TV studios of La7 S.r.l. at 229 Via della Pineta Sacchetti and 32 Via Novaro, respectively.

The income statement and the statement of financial position are presented in euro, while the statement of cash flows, the statement of changes in equity and the amounts in these notes are presented in thousands of euro.

As the Parent, Cairo Communication S.p.A. has also prepared the consolidated financial statements of the Cairo Communication Group at 31 December 2013.

Basis of preparation

Structure, form and content of the financial statements

The separate financial statements of Cairo Communication S.p.A. at 31 December 2013 have been prepared in accordance with IFRS issued by the International Accounting Standard Board (“IASB”) and endorsed by the European Union, as well as with the provisions arising from art. 9 of Legislative Decree no. 38/2005. The term IFRS is used to mean all the international accounting standards

(“IAS”), and all the interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), formerly the Standing Interpretations Committee (“SIC”).

For completeness of information, the following annexes are supplied as an integral part of these Notes:

- Annex 1: List of investments in subsidiaries and associates;
- Annex 2 and 3: Summary figures of the draft financial statements of subsidiaries at 31 December 2013;

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 shown 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 from the measurement of defined benefit plans);
- the effects of the measurement of derivative instruments hedging future cash flows;
- the effects of the measurement of “available-for-sale financial assets”;
- the effects arising from any change in accounting policies.

The consolidated statement of comprehensive income has changed from the previous year, following the amendments to IAS 1 - *Presentation of Financial Statements*. It presents the items relating to the amounts of the components of other comprehensive income for the period by nature and grouped into those which, in accordance with the provisions of other IAS / IFRS:

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

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

- it is expected to be realized or settled or it is expected to be sold or utilized in the normal operating cycle of the company;
- it is held 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 financing activities.

Income and expense relating to medium or long-term financial operations and those relating to hedging instruments and dividends paid are included in financing activities.

The **statement of changes in equity** shows the 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 are recognized 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.
- Financial income and expense are recognized in the income statement on a maturity basis, as a function of time, using the effective interest method.

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, La7 S.r.l (former Cairo Due S.r.l.) and Cairo Publishing S.r.l. participate in the national tax consolidation scheme of UT Communications S.p.A., in accordance with art. 117/129 of the Consolidated Income Tax Act.

The consolidation scheme, which regulates economic aspects pertaining to the sums deposited or 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 participating in 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 participates in 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. recognizes 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. The discounting process, based on demographic and financial assumptions, is performed by external actuaries.

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	3 to 5 years
Software	3 to 5 years

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

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 be reasonably attributed to the asset.

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

Property	3%
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. 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 ceases to exist, the loss is reversed up to the original carrying amount through profit and loss.

Receivables from subsidiaries and associates

Non-interest bearing loans granted to subsidiaries and associates are recognized as non-current financial assets.

<u>Currents assets and liabilities</u>

Receivables

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

Financial assets

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

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

Investments other than those held to maturity are classified as held for trading or available for sale and are measured at the end of each reporting period at their fair value.

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

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

Cash and cash equivalents

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

They are recognized at their nominal amount.

Borrowings, bank loans and overdrafts

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

Trade payables

They 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 recognized 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 persisting uncertainty factors in the short and medium economic term, which make it hard to predict a return to normal market conditions, have led to the need to make assumptions regarding future performance which are influenced by significant uncertainty, and the possibility of achieving results different from those estimated cannot be excluded for the next year, which could therefore require adjustments to the carrying amount, even significant, although these are obviously neither currently quantifiable nor foreseeable.

The items most susceptible to these uncertainties are the 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 doubtful account

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 further deterioration of the financial conditions of Company debtors compared to deterioration already considered in the quantification of the recognized allowance for impairment.

Deferred tax assets

Deferred tax assets are recorded to the extent to which it is considered probable that future taxable income will be generated to allow the utilization of 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. 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 2013, 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 2014 performance, whose assumptions and results are in line with the information disclosed in the section on "*significant events after the reporting period and business outlook*". In 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 Note 28 and Note 30. Reference is made to the Directors' Report regarding operational and business risks.

Accounting standards, amendments and interpretations applied from 1° January 2013

The following accounting standards, amendments and interpretations, revised also following IASB's yearly improvement process, were applied for the first time by Cairo Communication starting from 1° January 2013:

- Amendment to IAS 1 – *Presentation of financial statements* **–** The amendment, issued by the IASB in June 2011, is applicable to financial periods beginning on 1 July 2012, and requires entities to group items presented in OCI (Other Comprehensive Income) into two categories, based on whether they can be potentially re-classifiable or less to profit or loss subsequently. The adoption of this amendment produced no significant effects to the disclosures presented in this Annual Financial Report.
- IAS 19 (2011) – *Employee benefits* – The amendment, issued by the IASB in June 2011, is applicable to financial periods beginning on 1 January 2013. It eliminates the option of deferring recognition of actuarial gains and losses via the corridor approach, requiring recognition in the profit and loss of cost components relating to work 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 serving the benefit plan 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. The amendment requires further information to provide in the explanatory notes.

- Amendments to IFRS 7 – *Financial instruments: Disclosures* **–** In December 2011, the IASB issued a number of amendments to IFRS 7 – *Financial instruments: Disclosures*. The amendment requires information on the effects or potential effects of the agreements for the netting of financial assets and liabilities on the statement of financial position. The amendments must be applied to financial years beginning on or after January 1, 2013 and interim reporting periods after said date. The information must be provided retrospectively. The adoption of this amendment produced no significant effects to the disclosures presented in this Annual Financial Report.
- IFRS 13 – *Fair value measurement* – This standard, issued by the IASB in May 2011, is applicable from 1° January 2013. The standard defines fair value, clarifies how it is to be determined, and introduces common disclosure for all items measured at fair value. The standard applies to all transactions or balances for which another standard requires or permits fair value measurement. Adoption of this standard did not affect the measurement of financial statement items included in this Annual Financial Report.
- The amendments introduced by the IASB document *Annual Improvements to IFRSs: 2009-2011 Cycle*, approved by (EU) Regulation n.301/2013, effective as from 1 January 2013, produced no effects on the 2013 separate financial statements.

<u>Accounting standards, amendments and interpretations approved by the European Union, yet to be enforced, and not adopted in advance by the Company</u>

- *IFRS 10 – Consolidated Financial Statements* - The standard, issued by the IASB in May 2011, supersedes SIC 12 - *Consolidation: special purpose entities (vehicles)* and parts of IAS 27 – *Consolidated and separate financial statements*, renamed *Separate financial statements*. It sets out the accounting requirements of equity investments in the separate financial statements. The new standard identifies a common control system applicable to all entities, including vehicles. It also provides guidance on determining control when control is difficult to assess. The IASB requires retrospective application from 1° January 2013. The competent EU bodies have completed the approval process of the standard, deferring the date of application to 1° January 2014, allowing however early adoption beginning from 1° January 2013. The Group has determined that the effects of this new standard on the scope of consolidation are irrelevant.
- IFRS 11 – *Joint arrangements* – The standard, issued by the IASB in May 2011, supersedes IAS 31 – *Interests in Joint Ventures* and SIC 13 – *Jointly controlled entities: Non-monetary contributions by venturers*. The new standard provides criteria to identify joint arrangements based on the rights and obligations arising from the agreements, rather than on their legal

form. It uses only the equity method to account for interests in joint ventures in the consolidated financial statements. Following issue of this standard, IAS 28 – *Investments in associates* was amended to include within its framework, from the effective date of the standard, interests in joint ventures. The IASB requires retrospective application from 1° January 2013. The competent EU bodies have completed the approval process of the standard, deferring the date of application to 1° January 2014, allowing however early adoption beginning from 1° January 2013. The Group has determined that the effects of this new standard on the scope of consolidation are irrelevant.

- IFRS 12 – *Disclosure of interests in other entities* – The standard, issued by the IASB in May 2011, establishes the disclosure of additional information to provide on all types of interests, including those in subsidiaries, joint arrangements, associates, special purpose entities and other unconsolidated structured entities. The IASB requires retrospective application from 1° January 2013. The competent EU bodies have completed the approval process of this standard, deferring the date of application to 1° January 2014, allowing however early adoption beginning from 1° January 2013. The effects of the adoption of the new standard are limited to disclosure relating to interests in other entities, to provide in the notes to the annual consolidated financial statements.
- IAS 27 (2011) - *Separate financial statements* – Following issue of IFRS 10 in May 2011, the IASB narrowed the scope of application of IAS 27 only to the separate financial statements. The standard specifically governs the accounting treatment of investments in the separate financial statements and is applicable from 1° January 2014.
- IAS 28 (2011) - *Investments in associates and joint ventures* - Following issue of IFRS 11 in May 2011, the IASB amended the existing standard to include in its framework investments in joint ventures, and to govern the reduction of the interest which does not result in ceasing to apply the equity method. The standard is applicable from 1° January 2014.
- Amendments to IAS 32 – *Financial Instruments: Presentation* – The amendments issued by the IASB in December 2011 clarify the application of criteria for the offsetting of financial assets and liabilities appearing in IAS 32. The amendments must be applied retrospectively from 1° January 2014.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition guidance amendments* – On 28 June 2012, the IASB published the amendments to IFRS applicable, together with the relevant standards, from financial periods beginning on or after 1° January 2013, unless applied earlier. The purpose of the document, among other things, is to amend IFRS 10 to clarify how an investor must retrospectively adjust the comparative period if the conclusions on the consolidation are not the same in accordance with IAS 27/SIC 12 and IFRS 10 at the

"date of initial application". In addition, the Board also amended IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of interests in other entities* to provide a similar option for the presentation or modification of the comparative information pertaining to the periods prior to the comparative period presented in the financial statements. IFRS 12 was further amended by limiting the request of presenting comparative information for disclosures regarding unconsolidated "structured entities" in periods prior to the date of application of IFRS 12. The document is applicable to financial periods beginning on or after 1° January 2014.

- Amendments to IFRS 10, IFRS 12 and IAS 27 – *Investment entities* – The amendment issued by the IASB in October 2012 integrates IFRS 10 by clarifying the definition of investment entities and consolidation methods. The amendment to IFRS 12 integrates the standard by clarifying the disclosures to provide and the assessments on how to determine investment entities. The amendment to IAS 27 integrates the standard by establishing the disclosures that the investment entity is required to provide if it is also a controlling entity.
- IAS 36 – *Recoverable amount disclosures on non-financial assets* – The standard, issued by the IASB in May 2013, governs the disclosures to provide on the recoverable amount of impaired assets, if the amount is based on the fair value less costs of disposal. The amendments must be applied retrospectively to financial periods beginning on or after 1° January 2014. Early application is allowed for periods in which the entity has already applied IFRS 13.
- IAS 39 – *Financial instruments: recognition and measurement: "Novation of derivatives and continuation of hedge accounting*" – The standard, issued by the IASB in June 2013, clarifies that the amendments allow continuation of hedge accounting in the circumstance in which the derivative, which has been designated as an hedging instrument, is novated as a consequence of laws or regulations in order to replace the original counterparty to ensure performance of the obligation if certain conditions are met. The same amendment will also be included in IFRS 9 *Financial instruments*. These amendments must be applied retrospectively to financial periods beginning on or after 1° January 2014.

Accounting standards, amendments and interpretations yet to be enforced, not adopted in advance by the Company and not approved by the European Union

- IFRIC 21 - *Levies*, an interpretation of IAS 37 *Provisions, contingent liabilities and contingent assets*. The interpretation provides guidance on when to recognize liabilities for a levy imposed by a government, with the exception of those governed by other standards (i.e. IAS 12 – *Income tax*). IAS 37 establishes the recognition criteria of liabilities, one of which is the existence of a present obligation on an entity resulting from past events (obligating event). The interpretation clarifies that the obligating event that gives rise to liability for payment of a levy is explained by the relevant legislation that gives rise to its payment. IFRIC 21 must be applied to financial years beginning on or after 1° January 2014.

- Improvement to IAS 19 - *Employee benefits* - The amendment, issued by the IASB in November 2013, applies to employee contributions or defined benefit plans. The purpose of the amendments is to simplify the accounting of contributions that are independent of the number of years of service. The amendments are effective as from 1° July 2014; early application is allowed.
- Improvement to IFRS 2010-2012 Cycle - The amendment issued by IASB in December 2013 contains a set of amendments to IFRS (IFRS2, IFRS3, IFRS 8, IFRS13, IAS 16, IAS 24 and IAS 28). These amendments arise from proposals contained in the Draft Annual Improvements to IFRS 2010-2012 Cycle, published in May 2012. The amendments are effective as from 1 ° July 2014; early application is allowed.
- Improvement to IFRS 2011-2013 Cycle - The amendment, issued by the IASB in December 2013, contains a set of amendments to IFRS (IFRS1, IFRS 3, IFRS 13, and IAS 40). These amendments derive from proposals contained in the Exposure Draft Annual Improvements to IFRS 2011-2013 Cycle, published in November 2012. The amendments are effective as from 1° July 2014; early application is allowed.

NOTES TO THE INCOME STATEMENT

1. Revenue

Net operating revenue amounted to Euro 121,047 thousand (Euro 137,099 thousand in 2012). Its composition, versus 2012, is shown below:

Revenue (€ thousands)	**31/12/13**	**31/12/12**
Print media advertising space sales	43	42
Cairo Pubblicità TV sub-concession	116,228	131,259
Cairo Pubblicità print media sub-concession	877	897
Cairo Pubblicità Web sub-concession	297	1,299
Group services	3,502	3,502
Other revenue from associates	100	100
Total	**121,047**	**137,099**

Revenue is generated exclusively in Italy and an analysis by geographical area is pointless.

In 2013, 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.

In 2013, net operating revenue included the sub-concession fees billed to the subsidiary Cairo Pubblicità S.p.A. for:

- TV advertising sales, amounting to Euro 116,228 thousand,
- Internet advertising sales, amounting to Euro 297 thousand.
- print media advertising sales on “Prima Comunicazione” and “Uomini e comunicazione” of Editoriale Genesis S.r.l., amounting to Euro 877 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)	**31/12/13**	**31/12/12**
Cairo Pubblicità S.p.A.	3,000	3,000
Il Trovatore S.r.l.	22	22
Cairo Editore S.p.A.	480	480
Total	**3,502**	**3,502**

Other revenue from associates (Euro 100 thousand) relates to administrative services provided to Torino FC S.p.A., a related party in that it is ultimately controlled by U.T. Communications S.p.A.

2. Other revenue and income

Other revenue and income amounted to Euro 1,217 thousand (Euro 133 thousand in 2012).

3. Services, use of third-party assets and other operating costs

Costs for services amounted to Euro 111,617 thousand (Euro 124,547 thousand in 2012) and are detailed as follows versus 2012:

Services (€ thousands)	31/12/13	31/12/12
Publishers' fees	915	930
TV publishing fees	107,139	119,025
Web publishing fees	254	1,183
Consultancies and collaborations	33	768
Cairo Communication Board of Directors' fees	1,605	945
Cairo Communication Board of Statutory Auditors' fees	75	70
Other administration and general expenses	1,596	1,626
Total	**111,617**	**124,547**

The decrease in "TV publishers' fees" is ascribable to the decrease in TV advertising revenue.

Use of third-party assets amounted to Euro 677 thousand (Euro 638 thousand in 2012) and refers mainly to lease payments for property and office equipment.

Other operating costs amounted to Euro 181 thousand (Euro 61 thousand in 2012) and refer to prior-year expense of Euro 105 thousand and other costs of Euro 76 thousand.

4. Personnel expense

This item can be analyzed as follows:

Personnel expense (€ thousands)	31/12/13	31/12/12
Wages and salaries	2,005	1,916
Social security contributions	745	674
Other expense	20	16
Post-employment benefits	74	144
Total	**2,844**	**2,750**

5. Amortization, depreciation, provisions and impairment losses

These can be analyzed as follows:

Amortization, depreciation, provisions and impairment losses (€ thousands)	31/12/13	31/12/12
Amortization of intangible assets	60	90
Depreciation of property, plant and equipment	136	123
Additions to provisions for risks	76	-
Total	**272**	**213**

6. Net financial income

Net financial income amounted to Euro 1,016 thousand (Euro 1,284 thousand in 2012) and is broken down as follows:

Net financial income (€ thousands)	31/12/13	31/12/12
Interest income on bank accounts	1,137	1,373
Interest income from Cairo Publishing	1	2
Total financial income	**1,138**	**1,375**
Interest and other financial expense	(122)	(91)
Total financial expense	**(122)**	**(91)**
Net financial income	**1,016**	**1,284**

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7. Income/ (loss) on investments

This item mainly includes:

- dividends received during the year from the subsidiaries Cairo Pubblicità and Cairo Editore, amounting respectively to Euro 3.4 million and Euro 9.7 million (Euro 4.7 million and Euro 11 million in 2012);
- the gains from the sale of Dmail Group shares, amounting to Euro 377 thousand,
- adjustment of the investment held in Cairo Publishing S.r.l., amounting to Euro 350 thousand.

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8. Income tax

Income tax for the year amounted to Euro 2,797 thousand (Euro 3,486 thousand in 2012). In accordance with the relevant accounting standards, the deferred tax assets, relating mainly to the accrual of provisions whose fiscal deductibility is deferred, were recognized.

Tax (€ thousands)	**31/12/13**	**31/12/12**
Current tax		
Ires	2,233	2,703
Irap	410	465
Deferred tax assets	20	318
Deferred tax liabilities	134	-
Total	**2,797**	**3,486**

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

	31/12/13	**31/12/12**
Pre-tax profit	**20,863**	**25,548**
Theoretical income tax charge (27.5%)	**5,737**	**7,026**
Tax effects of dividends received	(3,437)	(4,096)
Tax effects of other permanent differences	87	91
Irap	410	465
Current and deferred income tax for the year	**2,797**	**3,486**

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 2013, equal to 27.5%.

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9. Loss from discontinued operations

At 31 December 2013, this included the allocation of Euro 5 thousand for the loss of the year incurred by the subsidiary Diellesei S.r.l. in liquidation. At 31 December 2012, the item amounted to zero.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

10. Property, plant and equipment

At 31 December 2013, this item amounted to Euro 548 thousand, increasing by Euro 28 thousand versus 31 December 2012. Movements can be broken down as follows:

	Historical cost	Revaluation	Accumulated depreciation	Carrying amount 31/12/2012	Net change	Carrying amount 31/12/2013
Motor vehicles	472	0	(361)	111	(33)	78
Furniture and fittings	391	0	(205)	186	(18)	168
Communication equipment	77	0	(71)	6	(1)	5
Electronic office equipment	1,122	0	(957)	165	80	245
Plant (various)	124	0	(122)	2	(2)	-
Mobile phones	26	0	(19)	7	-	7
Leasehold improvements	249	0	(206)	43	2	45
Total other assets	**2,461**	**0**	**(1,941)**	**520**	**28**	**548**

The net change in the year is broken down as follows:

	Additions	Disposals	Depreciation	Net change
Motor vehicles	-	-	(33)	(33)
Furniture and fittings	-	-	(18)	(18)
Communication equipment	-	-	(1)	(1)
Electronic office equipment	140	-	(60)	80
Plant (various)	-	-	(2)	(2)
Mobile phones	2	-	(2)	-
Leasehold improvements	22	-	(20)	2
Total	**164**	**-**	**(136)**	**28**

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

At 31 December 2013, intangible assets amounted to Euro 357 thousand, increasing by Euro 198 thousand versus 31 December 2012. Their movements during the year are as follows:

(€ thousands)	Historical cost	Accumulated depreciation	Carrying amount at 31/12/2012	Net change	Carrying amount at 31/12/2013
Software, licenses and trademarks	2,485	(2,338)	147	(15)	132
Total concessions, licenses and trademarks	**2,485**	**(2,338)**	**147**	**(15)**	**132**
Website design costs	169	(169)	0	0	0
Assets under development	12	-	12	213	225
Total other	**181**	**(169)**	**12**	**213**	**225**
Total intangible assets	**2,666**	**(2,507)**	**159**	**198**	**357**

The net change in the year is broken down as follows:

(€ thousands)	Additions	Disposals	Amortization	Net change
Software	45	-	(60)	(15)
Total concessions, licenses and trademarks	**-**	**-**	**-**	**(15)**
Website design costs	-	-	-	0
Assets under development	213	-	-	213
Total intangible assets	**258**	**-**	**(60)**	**198**

Expenses incurred for procedures and software programs are amortized over 3 and 5 financial years.

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12. Investments

- Investments in subsidiaries, associates and other companies

At 31 December 2013, investments amounted to Euro 17,614 thousand, increasing by Euro 3,583 thousand versus 31 December 2012.

(€ thousands)	Carrying amount at 31/12/2012	Impairment losses	Reclassifications	Value increases (decreases)	Carrying amount at 31/12/2013
Diellesei S.r.l. in liquidation	0	-	-	-	0
Cairo Sport S.r.l.	12	(2)	-	-	10
La7 S.r.l. (former Cairo Due S.r.l.)	132	-	-	3,907	4,039
Il Trovatore S.r.l.	357	-	-	-	357
Cairo Editore S.p.A.	6,273	-	-	-	6,273
Cairo Publishing S.r.l.	1,595	(350)	-	350	1,595
Cairo Pubblicità S.p.A.	5,340	-	-	-	5,340
Total subsidiaries	**13,709**	**(352)**		**4,257**	**17,614**
Dmail Group S.p.A.	**322**	**-**	**(322)**	**-**	**0**
Total associates	**322**	**-**	**(322)**	**-**	**0**
Dmail Group S.p.A.	-		322	(322)	0
Total other investments	**0**	**-**	**322**	**(322)**	**0**
Total investments	**14,031**	**(352)**	**0**	**3,935**	**17,614**

Subsidiaries

In 2013, Cairo Communication signed a contract with Telecom Italia Media for the acquisition of the entire share capital of La7 S.r.l. The transaction was completed on 30 April 2013 through its subsidiary Cairo Due S.r.l., and from that date, La7 S.r.l. was included in the scope of consolidation of the Cairo Communication Group.

Cairo Communication provided Cairo Due with the financial resources required to undertake the transaction through capital contributions of Euro 3,530 thousand and waiver of an interest-free loan of Euro 386 thousand outstanding at 31 December 2012, amounting to Euro 3,907 thousand, increasing the carrying value of the investment. Effective 1 August 2013, Cairo Due incorporated La7 and concurrently changed its name to La7 S.r.l.

Moreover, in 2013:

- the liquidation of the subsidiary Diellesei continued, generating a loss of Euro 5 thousand. The net deficit of the company is covered by the provision for investment risks at 31 December 2013,

- Cairo Communication waived, in the reserve for losses accrued or to be accrued, interest-bearing loans of Euro 350 thousand provided to the subsidiary Cairo Publishing S.r.l.

Annex 2 shows the information required by paragraph V of art. 2427 of the Italian Civil Code. Information at 31 December 2013 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.

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(€ thousands)	Equity 31/12/2013 (*)	Ownership %	Equity method (*) (a)	Carrying amount (b)	Difference (a-b)
Cairo Editore S.p.A.	8,313	99,95%	20,328	6,273	14,055
La 7 S.r.l. (former Cairo Due S.r.l.)	121,561	100%	64,295	4,039	60,256
Il Trovatore S.r.l.	63	80%	214	357	(143)
Cairo Pubblicità S.p.A.	5,035	100%	7,371	5,340	2,031
Diellesei S.r.l. in liquidation	(128)	60%	(128)	(128)	-
Cairo Publishing S.r.l.	54	100%	54	1,595	(1,541)
Cairo Sport S.r.l.	10	100%	10	10	-

(*) Amounts determined under IAS/IFRS

The carrying amount of the investments in Il Trovatore S.r.l. and Cairo Publishing S.r.l. is higher than the amount obtained using the equity method, respectively by Euro 143 thousand and Euro 1,531 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.

The company prepares Group consolidated financial statements which, taking account of the investments held, are an essential document to ensure complete understanding of the activities of the Group, the Parent and its investments.

Associate

At 31 December 2012, the item included Euro 322 thousand for the investment held in the listed company Dmail Group S.p.A. (153,000 shares, or 10% of the share capital). In 2013, the investment was gradually disposed and was reclassified from "Investments in associates" to "Investments in other companies" ("available for sale"), as it is no longer an associate, and was then fully disposed of. The disposal of Dmail Group shares generated gains of Euro 377 thousand, recognized in the income statement under "income/(loss) on investments".

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13. Receivables from subsidiaries and other non-current financial assets

Receivables from subsidiaries

At 31 December 2012, the item, amounting to Euro 386 thousand, referred to a non-interest-bearing shareholder loan made to the subsidiary Cairo Due S.r.l. (now La7 S.r.l.). Cairo Communication waived the loan in 2013 in the share capital increase reserve of the subsidiary.

Other non-current financial assets

At 31 December 2013, non-current financial assets - mainly guarantee deposits - amounted to Euro 13 thousand (Euro 13 thousand at 31 December 2012).

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14. Deferred tax assets

At 31 December 2013, deferred tax assets amounted to Euro 493 thousand (Euro 488 thousand at 31 December 2012). These assets can be analyzed as follows:

	31/12/13		31/12/12	
Deferred tax assets (€ thousands)	**Temporary differences**	**Tax effect**	**Temporary differences**	**Tax effect**
Taxed allowance for impairment	761	209	1,579	434
Other temporary differences	917	258	272	54
Post-employment benefits IAS	96	26		
Total deferred tax assets	**1,774**	**493**	**1,851**	**488**

Deferred tax assets relate to the recognition at 31 December 2013 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 535 thousand, decreasing by Euro 640 thousand versus 31 December 2012. These are broken down as follows:

Trade receivables (€ thousands)	**31/12/13**	**31/12/12**	**Change**
Trade receivables	1,247	2,754	(1,507)
Allowance for impairment	(712)	(1,579)	867
Total trade receivables	**535**	**1,175**	**(640)**

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 2013 (€ 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 over 180 days	Total
Trade receivables	266	-	-	30	951	1,247
Allowance for impairment	-	-	-	-	(712)	(712)
Net trade receivables	**266**	**-**	**-**	**30**	**239**	**535**

31 December 2012 (€ 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 over 180 days	Total
Trade receivables	-	-	-	-	2,754	2,754
Allowance for impairment	-	-	-	-	(1,579)	(1,579)
Net trade receivables	**-**	**-**	**-**	**-**	**1,175**	**1,175**

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

These amounted to Euro 76,415 thousand, increasing by Euro 4,072 thousand versus 31 December 2012. They include:

Receivables from subsidiaries (€ thousands)	**31/12/13**	**31/12/12**	**Change**
La7 S.r.l (former Cairo Due S.r.l.)	-	58	(58)
Cairo Editore S.p.A.	10,224	739	9,485
Il Trovatore S.r.l.	364	337	27
Cairo Publishing S.r.l.	90	140	(50)
Cairo Pubblicità S.p.A.	65,737	71,069	(5,332)
Total receivables from subsidiaries	**76,415**	**72,343**	**4,072**

Receivables from Cairo Editore include Euro 9,753 thousand for dividends to receive as resolved by the Shareholders' Meeting of the subsidiary on 18 December 2013.
Receivables from Cairo Pubblicità S.p.A. - Euro 63,897 thousand at 31 December 2013 - are mainly receivables from the sub-concession contracts.
Other trade receivables from Cairo Pubblicità S.p.A., as those from Il Trovatore 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 amounted to Euro 1,055 thousand, decreasing by Euro 2,861 thousand versus 31 December 2012, and can be analyzed as follows:

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Other receivables and other current assets (€ thousands)	31/12/13	31/12/12	Change
VAT credit	119	2,280	(2,161)
Prepaid IRAP	67	100	(33)
Receivables from others	522	1,208	(686)
Prepayments and accrued income	347	328	19
Total other receivables and other current assets	**1,055**	**3,916**	**(2,861)**

Withholding and prepaid taxes are taken as a deduction from the payment of taxes to relevant authorities.

18. Cash and cash equivalents

The item coincides with the **net financial position** and amounted to Euro 35,690 thousand, decreasing by Euro 9,736 thousand versus 2012. It can be analyzed as follows:

Cash and cash equivalents (€ thousands)	31/12/13	31/12/12	Change
Bank and postal accounts	35,680	45,420	(9,740)
Cash	10	6	4
Total	**35,690**	**45,426**	**(9,736)**

Cash and cash equivalents continued to be managed prudently.

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19. Equity

At 31 December 2013, equity amounted to Euro 67,837 thousand, increasing by Euro 8,469 thousand versus 31 December 2012, mainly as a result of the distribution of the 2012 interim dividend resolved by the Shareholders' Meeting of 28 April 2013 (Euro 10,905 thousand), of the sale of treasury shares (Euro 1,382 thousand) and of the overall result of 2013 (Euro 17,991 thousand).

At their Meeting on 29 April 2013, the shareholders approved the distribution of a dividend of 0.27 Euro per share, inclusive of tax, of which Euro 0.13 per share already distributed as an interim dividend under the resolution adopted by the meeting of the Board of Directors held on 14 November 2012. The balance of the dividend, amounting to Euro 0.14 per share for a total of Euro 10.9 million, was distributed with detachment date on 13 May 2013 (payable on 16 May 2013).

Share capital

The share capital at 31 December 2013 was Euro 4,074 thousand, subscribed and fully paid up, comprising n. 78,343,400 ordinary shares to which no nominal amount is attributed.

In accordance with the bylaws the shares are registered, indivisible and freely transferable. 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 envisaged involving share capital increases, including bonus issues.

The reconciliation between the number of shares outstanding at 31 December 2013 and those at 31 December 2012 is as follows:

	31/12/2012	Purchase of treasury shares	Disposal of treasury shares	31/12/2013
Ordinary shares issued	78,343,400	-	-	78,343,400
Less: treasury shares	(450,779)	-	450,000	(779)
Ordinary shares outstanding	**77,892,621**	**-**	**450,000**	**78,342,621**

Share premium reserve

At 31 December 2013, the share premium reserve amounted to Euro 44,154 thousand.

Retained earnings

At 31 December 2013, the balance showed a positive Euro 494 thousand. The item includes the IAS first-time adoption reserve, with a negative balance of Euro 1,313 thousand.

Retained earnings (€ thousands)	**31/12/2013**	**31/12/2012**
Retained earnings	1,807	1,807
Retained earnings – “first-time adoption” reserve	(1,313)	(1,313)
Total	**494**	**494**

Other reserves

At 31 December 2013, the item amounted to Euro 1,057 thousand, unchanged versus 2012. It can be analyzed as follows:

Other reserves (€ thousands)	**31/12/2013**	**31/12/2012**
Legal reserve	815	815
Negative goodwill	225	225
Other reserves	17	17
Total	**1,057**	**1,057**

Treasury shares reserve

In 2013, as part of the share buy-back plans, n. 450,000 treasury shares were sold. At 31 December 2013, Cairo Communication held a total of n. 779 residual treasury shares, or 0.001% of the share capital, subject to art. 2357 ter of the Italian Civil Code.

At their meeting on 26 April 2013, after revoking a similar resolution adopted on 26 April 2012, the shareholders approved the proposal to acquire and dispose of treasury shares in accordance with art. 2357 and subsequent articles of the Italian Civil Code, for the purpose of stabilizing the Company share price and sustaining liquidity, and, if deemed necessary by the Board of Directors, through an independent intermediary, of establishing a “shares stock” as provided under Consob Resolution 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, for a period of 18 months, 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

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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	---	---	---	---
Treasury shares	(2)	---	---	---	---
Share premium reserve	44,154	ABC	44,154 (1)	---	(9,203)
Legal reserve	815	B	---	---	---
Other reserves	17	ABC	17	---	---
Negative goodwill	225	ABC	225	---	---
Retained earnings	494	ABC	494	---	(49,097)
Total	**49,777**		**44,890**		**(58,300)**

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 Code

Profit for the year

Profit for the year amounted to Euro 18,061 thousand (Euro 21,062 thousand at 31 December 2012).

20. Post-employment benefits

This item amounted to Euro 1,008 thousand, with a net increase by Euro 149 thousand versus 2012. The movement is analyzed below:

	Balance at 31/12/2012	**Paid during the year**	**Financial expense**	**Accrued during the year**	**Actuarial adjustment**	**Balance at 31/12/2013**
Post-employment benefits	**859**	(52)	32	72	97	1,008
Total	**859**	**(52)**	**32**	**72**	**97**	**1,008**

The change in the composition of personnel during the year is summarized as follows:

	Headcount at the beginning of the year	Changes	Headcount at year-end	Average headcount
Senior managers	7	-	7	7
Managers	2	-	3	3
Employees	18	-	18	18
Total	**27**	**-**	**28**	**28**

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21. Provisions for risks and charges

Provisions for risks and charges amounted to Euro 337 thousand, unchanged versus 2012.

Provisions for risks and charges (€ thousands)	**Balance at 31/12/2012**	**Utilized**	**Released**	**Accrued**	**Balance at 31/12/2013**
Risks on investments	149	(26)	-	5	128
Other risks	-	-	-	75	75
Deferred tax provision	-	-	-	134	134
Total	**149**	**(26)**	**-**	**214**	**337**

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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22. Trade payables

Trade payables amounted to Euro 3,604 thousand, decreasing by Euro 69,219 thousand versus 31 December 2012. At 31 December 2012, the item included Euro 68,672 thousand related to payables for La7 publishers’ fees classified at 31 December 2013 under “payables to subsidiaries” as a result of the acquisition of La7.

23. Receivables from and payables to parent

Receivables from parents amounted to Euro 649 thousand, decreasing by Euro 187 thousand versus 31 December 2012. Euro 602 thousand refers to receivables from U.T. Communications arising from the national tax consolidation scheme. The receivables stem from the tax advance payments netted against tax liabilities for the year.

As mentioned earlier, Cairo Communication and its subsidiaries Cairo Editore S.p.A., Cairo Pubblicità S.p.A., Diellesei S.r.l. in liquidation, La 7 S.r.l. (former Cairo Due S.r.l.) and Cairo Publishing S.r.l. participate in the national tax consolidation scheme of U.T. Communications S.p.A.

The consolidation scheme, which governs the financial aspects of amounts paid or received in return for the advantages or disadvantages resulting from the tax consolidation, specifically provides that any greater charges or minor benefits that may accrue to the company resulting from participation in the procedure, be suitably remunerated by the Parent.

24. Payables to subsidiaries

Payables to subsidiaries amounted to Euro 58,460 thousand, increasing by Euro 56,288 thousand versus 31 December 2012. The following table shows the breakdown of payables to subsidiaries that relate to services received in the ordinary course of business:

Payables to subsidiaries (€ thousands)	**31/12/13**	**31/12/12**	**Change**
La7 S.r.l. (former Cairo Due S.r.l.)	55,570	38	55,532
Cairo Pubblicità S.p.A.	2,556	1,980	576
Cairo Publishing S.r.l.	6	6	-
Il Trovatore S.r.l.	121	148	(27)
Total payables to subsidiaries	**58,253**	**2,172**	**56,081**

At 31 December 2013, the item included Euro 55,570 thousand relating to payables for La7 publishers' fees, classified at 31 December 2012 under "trade payables".

25. Tax liabilities

Tax liabilities amounted to Euro 227 thousand, decreasing by Euro 34 thousand versus 31 December 2012. They are analyzed as follows:

Tax liabilities (€ thousands)	**31/12/13**	**31/12/12**	**Change**
Withholding taxes on employees	207	217	(10)
Withholding taxes on contract workers	20	44	(24)
Total tax liabilities	**227**	**261**	**(34)**

As mentioned earlier, 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.

26. Other current liabilities

Other current liabilities amounted to Euro 2,104 thousand, decreasing by Euro 1,559 thousand versus 31 December 2012. They are broken down as follows

Other current liabilities (€ thousands)	**31/12/2013**	**31/12/2012**	**Change**
Social security charges payable	203	190	13
Shareholder liability for dividends to be distributed	-	1,262	(1,262)
Other liabilities	1,841	1,631	210
Deferred income	60	580	(520)
Total other current liabilities	**2,104**	**3,663**	**(1,559)**

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 recognized in profit and loss

"Shareholder liability for dividends to be distributed" at 31 December 2013 referred to liabilities for dividends to pay out to the majority shareholder.

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27. Commitments, risks and other information

Guarantees and commitments

Main guarantees given are as follows:

- a bank surety of Euro 17.6 million issued by Unicredit to Telecom Italia Media S.p.A. (Telecom Italia Group), expiring on 15 June 2014, securing payment of minimum guaranteed fees, under the contract for the exclusive sale of television advertising space on La7.
- other sureties issued by bank and insurance institutes to customers, public bodies and lessors of property totaling Euro 112 thousand.

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Other information

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

La7, for a maximum amount of Euro 3,995 thousand (including VAT) until 31 December 2013, and Euro 6,558 thousand (including VAT) per year effective as from 1 January 2014.

The contract, signed on 6 March 2013 with Telecom Italia Media for the acquisition of the entire share capital of La7 S.r.l., also provides for:

- the buyer's commitment, for a period of 24 months (lock-up) from the date of finalization of the acquisition, not to sell, assign, transfer, dispose of in any way, in whole or in part, the investment in La7, or the business unit owning La7, without prejudice to the buyer's right, including during lock-up, to:
    - undertake a transfer or assignment to entities wholly-owned, whether directly or through other companies wholly-owned by Cairo Communication;
    - merge La7 and Cairo Due S.r.l., provided the latter, at the effective date of the merger, does not have a negative net financial position in excess of Euro 1,020 thousand;
    - constitute real rights of guarantee in favor of the lending banks on the shares of LA7;
    - undertake, under certain conditions, a proportional demerger of the group.

  The lock-up commitments are accompanied by a penalty clause of the amount of Euro 20 million.
- Cairo Communication's commitment, for a period of 24 months from the date of finalization of the acquisition, to use the financial resources arising from the contribution received from Telecom Italia Media in the exclusive interest and for the restructuring of La7, and the related prohibition to engage in certain transactions specified in the contract, including of an extraordinary kind, aimed at depriving La7 of the resources from the contribution to the benefit of third parties or related parties, or to make new investments.

  This commitment, as the above, is accompanied by a penalty clause, the amount of which varies depending on the transaction.

With regard to the Automatic Numbering Plan, the numbers currently in use (7 for La7 and 29 for La7d) are those assigned by the Ministry of Economic Development in 2010, under AGCOM resolution 366/2010/CONS. The Resolution had been challenged by Telenorba and other local broadcasters, with partial annulment specifically regarding the assignment of numbers 7-8 and 9 by the Council of State through Ruling 4660/12.
On 21 March 2013, the Communications Authority (AGCOM) unanimously approved the New Automatic Numbering Plan for digital terrestrial television (LCN) by Decision 237/13/CONS. The decision confirmed, for national traditional broadcasters, the assignment of numbers 0-9 of the first block of LCN numbering (see p. 39-40 and 44 of AGCOM Decision no. 237/13/CONS).

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

As the result of a VAT audit performed on Cairo Communication S.p.A., in its report, the Guardia di Finanza (the Italian Tax Police) identified some findings for 2002 and subsequent years (2003, 2004, 2005 and 2006) relating to the application if any of VAT on dealing rights charged to media centres, which were subsequently included in the final audit reports 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 (Italian Tax Authorities) has filed an appeal with the Regional Tax Commission of Milan against these decisions. In April 2010, the Regional Tax Commission of Milan ruled in favour of the Agency's appeal regarding 2002, and in October 2011 also regarding the years 2003, 2004 and 2005, on questionable grounds. Cairo Communication has already appealed to the Court of Cassation against the judgment regarding 2002, for which the tax claim amounts to Euro 41 thousand in addition to penalties of Euro 51 thousand, and the judgment regarding the subsequent years 2003, 2004 and 2005, for which the tax claim totals Euro 247 thousand, in addition to penalties of Euro 272 thousand and interest. The tax claim for 2006 amounts to Euro 63 thousand, in addition to penalties of Euro 79 thousand and interest. Regarding this tax claim, the Company has promptly filed an appeal and, to date, the hearing has yet to be scheduled.

In June 2012, in relation to 2003, 2004, 2005 and 2006, the Company received two tax assessments demanding payment of the amounts due arising as a result of the judgment of the Regional Tax Commission, for a total claim of approximately Euro 431 thousand, including penalties and interest. In relation to the tax claim contained in these reports, based also on the advice of its tax consultants, the Directors believe there are fundamental reasons and rights to oppose the relevant findings.

In the hearing on 4 March 2013, the Italian Tax Authorities issued an order for relief, thus acknowledging the Company's arguments, relating to the objections raised by the Authorities against Cairo Communication, illustrated in the notes to the consolidated financial statements for the year ended 31 December 2011, and relating to the use, for offsetting purposes, of payments made by Cairo Communication in 2007, of excess IRES resulting from the income tax return for the year ended September 30, 2006. The parties unanimously requested dismissal of the case for discontinuance of the matter at issue.

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 have filed an appeal with the Regional Tax Commission of Milan against the ruling. In its hearing on 27 May 2013, the Regional Tax Commission of Milan rejected the Agency's Appeal. To date, the time limit to lodge the appeal before the Court of Cassation by the Office is still pending.

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.

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.

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28. 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 (Euro/000)	Trade receivables	Other receivables and current assets	Intra-group financial assets	Other current financial assets
Parent UT Communications	61	588	-	-
Subsidiaries of Cairo Communication Group				
Cairo Pubblicità S.p.A.	65,737	-	-	-
Cairo Editore S.p.A.	470	-	-	9,754
LA 7 S.r.l	-	-	-	-
Cairo Publishing S.r.l.	41	-	-	50
Il Trovatore S.r.l.	364	-	-	-
Associates of UT Communications Group				
Torino FC S.p.A.	303	-	-	-
Total	**66,976**	**588**	**-**	**9,804**

Payables and financial liabilities (Euro/000)	Trade payables	Other payables and current liabilities	Intra-group financial payables	Other financial liabilities
Parent UT Communications	-	-	-	-
Subsidiaries of Cairo Communication Group				
Cairo Pubblicità S.p.A.	2,556	-	-	-
Cairo Editore S.p.A.	-	-	-	-
La 7 S.r.l.	55,570	-	-	-
Cairo Publishing S.r.l.	6	-	-	-
Il Trovatore S.r.l.	121	-	-	-
Associates of UT Communications Group				
Torino FC S.p.A.	17	-	-	-
Total	**58,270**	**-**	**-**	**-**

Income and expense (Euro/000)	Operating revenue	Operating costs	Financial income	Financial expense	(Expense)/ Income from investments
Parent UT Communications	-	-	-	-	-
Subsidiaries of Cairo Communication Group					
Cairo Pubblicità S.p.A.	120,402	-	-	-	3,402
Cairo Editore S.p.A.	480	-	-	-	9,754
La 7 S.r.l.	-	(104,650)	-	-	-
Cairo Publishing S.r.l.	-		1	-	-
Il Trovatore S.r.l.	22	(108)	-	-	-
Associates					
Dmail Group S.p.A.	-	-	-	-	-
Associates of UT Communications Group					
Torino FC S.p.A.	100	-	-	-	-
Total	**121,004**	**(104,758)**	**1**	**-**	**13,156**

Specifically, income and expense in relation to subsidiaries can be analyzed as follows:

Income and expense (Euro/000)	**Cairo Editore**	**Cairo Pubblicità**	**Cairo Publishing**	**La7**	**Il Trovatore**	**Torino FC**
INCOME						
Sub-concession payment	-	117,402	-	-	-	-
Administrative services and use of serviced space	480	3,000	-	-	22	100
Recharged costs	-	-	-	-	-	-
Sale of advertising space	-	-	-	-	-	-
Interest income	-	-	1	-	-	-
Dividends	9,754	3,402	-	-	-	-
Total	**10,234**	**123,804**	**1**		**22**	**100**

	Cairo Editore	**Cairo Pubblicità**	**Cairo Publishing**	**La7**	**Il Trovatore**	**Torino FC**
EXPENSE						
Internet services	-	-	-	-	(108)	-
Publishers' fees				(104,650)		
Total	**-**	**-**	**-**	**(104,650)**	**(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 2013, 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 2013, 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, La 7 S.r.l. (former Cairo Due S.r.l.) and Cairo Publishing S.r.l. participated in the national tax consolidation scheme of U.T. Communications S.p.A.

Fees paid to the directors in 2013 are analyzed in Note 30 "Board of Directors' and Board of Statutory Auditors' fees" and in the Remuneration Report, prepared pursuant to art. 123 ter of the TUF.

In 2013 the Studio Magnocavallo and Associates, of which the lawyer Antonio Magnocavallo is a partner, has matured fees for professional services provided to companies of the Cairo Communication Group for approximately Euro 232 thousand.

During the year, no transactions were concluded 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".

29. 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 35.7 million, while 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 2013, 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 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.

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

The following information refers to the 2013 fees paid to Directors, Statutory Auditors, General Managers and key management personnel, also in subsidiaries, analyzed in detail in the Remuneration Report, prepared pursuant to art. 123 ter of the TUF:

Name	Position	Term of office	Term expiry date	Fees *	Benefits in kind	Bonuses and other incentives	Other fees**
Urbano R. Cairo	Chairman of the Board	Jan-Dec 2013	31/12/2013	500	16	-	505
Uberto Fornara	CEO	Jan-Dec 2013	31/12/2013	380	4	-	405
Roberto Cairo	Director	Jan-Dec 2013	31/12/2013	20	-	-	-
Marco Janni	Director	Jan-Dec 2013	31/12/2013	34	-	-	-
Antonio Magnocavallo	Director	Jan-Dec 2013	31/12/2013	34	-	-	-
Marco Pompignoli	Director	Jan-Dec 203	31/12/2013	610	4	-	295
Roberto Rezzonico	Director	Jan-Dec 2013	31/12/2013	40	-	-	-
Mauro Sala	Director	Jan-Dec 2013	31/12/2013	32	-	-	-
Key management personnel	N/A	Jan-Dec 2013	N/A	-		12	1,164
Marco Moroni	Chairman Board of Statutory Auditors	Jan-Dec 2013	31/12/2013	30	-	-	31
Mariapia Maspes	Standing auditor	Jan-Dec 2013	31/12/2013	20	-	-	20
Marco Giuliani	Standing auditor	Jan-Dec 2013	31/12/2013	20	-	-	-

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

- *Urbano Cairo: fees pursuant to art. 2389, paragraph 3, Italian Civil Code (Euro 480 thousand).*
- *Uberto Fornara: fees pursuant to art. 2389, paragraph 3, Italian Civil Code (Euro 360 thousand).*
- *Marco Janni: fees for attendance in meetings of the Remuneration Committee and Related Party Committee (Euro 14 thousand);*
- *Antonio Magnocavallo: fees for attendance in meetings of the Remuneration Committee and the Control and Risk Committee (Euro 14 thousand);*
- *Marco Pompignoli: fees pursuant to art. 2389, paragraph 3, Italian Civil Code (Euro 590 thousand);*
- *Roberto Rezzonico: fees for attendance in meetings of the Remuneration Committee, Control and Risk Committee and Related Party Committee (Euro 20 thousand);*
- *Mauro Sala: fees for attendance in meetings of the Risk and Control Committee and the Related Party Committee (Euro 12 thousand)*

*** Other fees refer to:*

- *Urbano Cairo: fees for his duties performed for Cairo Editore (Euro 500 thousand) and other companies of the Group (Euro 5 thousand).*
- *Uberto Fornara: gross fees as senior manager payable by Cairo Communication (Euro 300 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 200 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 880 thousand (comprising gross remuneration as manager) and variable incentive components amounting to Euro 184 thousand.*

At their meeting of 29 April 2013, the shareholders of the Parent approved the 2013 remuneration policy, as illustrated in Section 1 of the Remuneration Report, drawn up pursuant to art. 123-ter of

Legislative Decree 58/1998 and 84 quater of the Issuers' Regulations and approved by the Board of Directors on 19 March 2013.

At its meeting on 19 March 2013, 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, the Board of Directors resolved, for financial year 2013, on 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.

At its meeting on 13 November 2013, 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, the Board of Directors resolved on a variable fee mechanism for CEO Uberto Fornara in 2013, partly in the form of a bonus and partly in the form of incentive, the former amounting to Euro 250 thousand, in addition to the resolutions previously adopted at Group level, and the latter, totally in the form of incentive, based on the performance of key Group advertising revenue in the last quarter of 2013.

At its meeting on 18 December 2013, on the proposal of the Remuneration Committee and the favourable opinion of the Related Party Committee, the Board of Directors resolved to reward Marco Pompignoli with a bonus of Euro 500 thousand gross for his contribution to the acquisition of La7 S.r.l., working side by side with the Chairman during the study, set-up and accomplishment of a transaction considered of exceptional significance in terms of strategic relevance.

Under the decisions adopted at its Meeting on 13 November 2013, based on the 2013 final results, the Board of Directors acknowledged a variable fee of Euro 50 thousand to Uberto Fornara.

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 Parent and the directors for any indemnity in the event of resignation or unjust dismissal, or in the event their employment relationship ceases following a takeover bid;
- there are agreements in place between the Parent and Uberto Fornara, subject to non-competition commitments in the year following termination of his employment with the Parent, 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 2013, key management personnel of the Cairo Communication Group was composed of:

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

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

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

Pursuant to Consob Communication of 28 July 2006 n. DEM/6064296, it should be noted that in 2013 the Cairo Communication Group did not engage in any atypical and/or unusual transactions as defined by the above Communication. Mention must be made that on 30 April 2013 the Cairo Communication Group finalized the acquisition of the entire share capital of La7 S.r.l. The transaction, which is considered non-recurring by nature and relevant amount, generated non-recurring income and charges respectively of Euro 57,066 thousand and Euro 1,917 thousand as discussed in Note 10 to the consolidated financial statements.

For the Board of Directors

Chairman Urbano R. Cairo

Cairo Communication S.p.A.
Financial statements at 31 December 2013 – Annexes and Appendix

ANNEX 1 - LIST OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

SUBSIDIARIES:

Company name:	**Cairo Editore S.p.A.**
Registered office:	Milan – Corso Magenta, 55
Share capital:	1,043,256
Equity at 31/12/2012:	11,823,172
Profit at 31/12/2012:	9,158,666
Equity as per draft financial statements at 31/12/2013:	8,313,387
Profit as per draft financial statements at 31/12/2013:	6,248,910
Ownership:	99.95%

Company Name:	**LA 7 S.r.l. (former Cairo Due S.r.l.)**
Registered office:	Rome – Via delle Pineta Sacchetti 229
Share capital:	1,020,000
Equity at 31/12/2012:	95,020
Profit at 31/12/2012:	8,232
Equity as per draft financial statements at 31/12/2013:	121,560,581
Loss as per draft financial statements at 31/12/2013:	(54,619,188)
Ownership:	100%

Company name:	**Il Trovatore S.r.l.**
Registered office:	Milan – Via Tucidide, 56
Share capital:	25,000
Equity at 31/12/2012:	25,005
Loss at 31/12/2012:	(6,833)
Equity as per draft financial statements at 31/12/2013:	63,309
Profit as per draft financial statements at 31/12/2013:	38,303
Ownership:	80%

Company name:	**Cairo Pubblicità S.p.A.**
Registered office:	Milan – Via Tucidide, 56
Share capital:	2,818,400
Equity at 31/12/12:	7,397,612
Profit at 31/12/12:	3,402,019
Equity as per draft financial statements at 31/12/2013:	5,034,711
Profit as per draft financial statements at 31/12/2013:	1,039,118
Ownership:	100%

Company name:	**Diellesei S.r.l. in liquidation**
Registered office:	Milan – Via Tucidide, 56
Share capital:	10,000
Equity deficit at 31/12/2012:	(152,309)
Loss at 31/12/2012:	(904)
Equity deficit as per draft financial statements at 31/12/2013:	(127,466)
Loss as per draft financial statements at 31/12/2013:	(6,157)
Ownership	60%

Company name:	**Cairo Publishing S.r.l.**
Registered office:	Milan – Corso Magenta, 55
Share capital:	10,000
Equity at 31/12/2012:	80,696
Loss at 31/12/2012:	(287,054)
Equity as per draft financial statements at 31/12/2013:	53,901
Loss as per draft financial statements 31/12/2013:	(376,795)
Ownership:	100%

Company name:	**Cairo Sport S.r.l.**
Registered office:	Milan – Via Tucidide, 56
Share capital:	10,400
Equity at 31/12/2012:	8,898
Loss at 2012:	(1,502)
Ownership:	100%

INDIRECT SUBSIDIARIES

Company name:	**Edizioni Anabasi S.r.l.**	
Registered office:	Milan – Corso Magenta, 55	
Share capital:		10,200
Equity at 31/12/2012:		9,268
Loss at 31/12/2012:		(1,174)
Equity as per draft financial statements at 31/12/2013:		8,765
Loss as per draft financial statements at 31/12/2013:		(2,503)
Ownership:		100%

ANNEX 2

Summary figures of draft financial statements of subsidiaries in the advertising segment, il Trovatore and discontinued operations at 31 December 2013

	Cairo Pubblicità Financial statements at 31.12.13	**Il Trovatore** Financial statements at 31.12.13	**Cairo Sport** Financial statements at 31.12.13	**Diellesei in liquidation** Financial statements at 31.12.13
Assets				
A) Share capital proceeds to be received	0	0	0	0
B) Intangible fixed assets	221	0	0	0
Tangible fixed assets	31,111	213	0	0
Financial fixed assets	1,827	3,873	0	0
Total non-current assets	**33,159**	**4,086**	**0**	**0**
C) Inventories	0	0	0	0
Receivables	85,781,209	542,572	9,848	162,217
Current financial assets	0	0	0	0
Liquid funds	8,747,614	21,905	139	7,617
Total current assets	**94,528,823**	**564,477**	**9,987**	**169,834**
D) Prepayments and accrued income	85,600	468	42	503
Total assets	**94,647,581**	**569,031**	**10,029**	**170,337**
Liabilities				
A) Share capital	2,818,400	25,000	10,400	10,000
Income-related and other reserves	1,167,468	6	0	0
Shareholders' contributions to cover losses	9,394	0	0	61,000
Retained earnings/(losses carried forward)	331	0	0	(192,309)
Net profit/ (loss) for the year	1,039,118	38,303	(1,130)	(6,157)
Total equity	**5,034,711**	**63,309**	**9,270**	**(127,466)**
B) Provisions for risks and charges	1,196,612	0	0	64,133
C) Post-employment benefits	869,756	9,918	0	0
D) Payables	87,167,415	495,804	758	233,669
E) Accrued expenses and deferred income	379,087	0	0	0
Total equity and liabilities	**94,647,581**	**569,031**	**10,029**	**170,337**
Income statement				
A) Production revenue	166,252,600	486,117	260	128
B) Production costs	(164,591,609)	(422,146)	(860)	(945)
Operating profit/(loss)	1,660,992	63,971	(600)	(817)
C) Net financial income / (expense)	182,816	(1,195)	(530)	(331)
D) Adjustments to financial assets	0	0	0	0
E) Extraordinary income / (expenses)		0	0	0
Pre-tax profit/ (loss)	**1,843,808**	**62,776**	**(1,130)**	**(1,148)**
Income tax	(804,689)	(24,473)	0	(5,009)
Net profit / (loss) for the year	**1,039,118**	**38,303**	**(1,130)**	**(6,157)**

ANNEX 3

Summary figures of draft financial statements of subsidiaries in the publishing segment at 31 December 2013

	Cairo Editore	Cairo Publishing	Edizioni Anabasi	LA7
	Financial statements at 31.12.13	Financial statements at 31.12.13	Financial statements at 31.12.13	Financial statements at 31.12.13
Assets				
A) Share capital proceeds to be received	0	0	0	0
B) Intangible fixed assets	12,826,700	10,076	0	31,984,464
Tangible fixed assets	2,070,143	1,148	0	8,603,809
Tangible financial assets	63,257	0	0	458,330
Total non-current assets	**14,960,100**	**11,224**	**0**	**41,046,603**
C) Inventories	3,729,675	154,496	0	219,431
Receivables	21,693,431	2,110,300	7,875	66,026,906
Current financial assets	0	0	0	0
Liquid funds	12,518,192	119,936	11,260	115,798,676
Total current assets	**37,941,298**	**2,384,732**	**19,136**	**182,045,013**
D) Prepayments and accrued income	305,048	1,530	0	692,900
Total assets	**53,206,446**	**2,397,486**	**19,136**	**223,784,517**
Liabilities				
A) Share capital	1,043,256	10,000	10,200	1,020,000
Income-related and other reserves	1,021,221	5,000	129	175,142,924
Shareholders' contributions to cover losses	0	0	939	0
Retained earnings/(losses carried forward)	0	415,696	0	16,845
Net profit/ (loss) for the year	6,248,910	(376,795)	(2,503)	(54,619,188)
Total equity	**8,313,387**	**53,901**	**8,765**	**121,560,581**
B) Provisions for risks and charges	1,857,152	420,851	0	11,283,513
C) Post-employment benefits	2,351,179	152,547	0	8,137,943
D) Payables	40,584,840	1,770,187	10,370	82,657,738
E) Accrued expenses and deferred income	99,888	0	0	144,742
Total liabilities	**53,206,446**	**2,397,486**	**19,136**	**223,784,517**
Income statement				
A) Production revenue	100,500,853	1,112,293	500	117,683,940
B) Production costs	(90,360,802)	(1,597,144)	(3,384)	(175,906,665)
Operating profit/(loss)	10,140,051	(484,851)	(2,884)	(58,222,725)
C) Net financial income / (expense)	98,461	6,958	381	1,333,383
D) Adjustments to financial assets	0	0	0	0
E) Extraordinary income / (expenses)	0	0	0	139,629
Pre-tax profit/ (loss)	**10,238,512**	**(477,893)**	**(2,503)**	**(56,749,713)**
Income tax	(3,989,602)	101,098	0	2,130,525
Net profit / (loss) for the year	**6,248,910**	**(376,795)**	**(2,503)**	**(54,619,188)**

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 2012)

	Cairo Pubblicità Financial statements at 31.12.12	Cairo Due Financial statements at 31.12.12	Il Trovatore Financial statements at 31.12.12	Cairo Sport Financial statements at 31.12.12	Diellesei in liquidation Financial statements at 31.12.12
Assets					
A) Share capital proceeds to be rec	0	0	0	0	0
B) Intangible fixed assets	1,004,574	0	0	0	0
Tangible fixed assets	17,401	0	680	0	0
Tangible financial assets	1,827	0	3,873	0	
Total non-current assets	**1,023,802**	**0**	**4,553**	**0**	**0**
C) Inventories	0	0			0
Receivables	88,434,187	214,667	400,783	2,410	167,962
Current financial assets	0	0	0	0	0
Liquid funds	10,319,428	363,865	20,294	7,405	1,340
Total current assets	**98,753,615**	**578,533**	**421,077**	**9,816**	**169,302**
D) Prepayments and accrued incon	105,828	58	484	0	354
Total assets	**99,883,244**	**578,590**	**426,114**	**9,816**	**169,656**
Liabilities					
A) Share capital	2,818,400	46,800	25,000	10,400	10,000
Income-related and other reserv	1,167,468	10,429	2,674	0	0
Shareholders' contributions to cov	9,394	20,945	0	0	30,000
Retained earnings/(losses carried	331	8,614	4,164	0	(191,405)
Net profit/ (loss) for the year	3,402,019	8,232	(6,833)	(1,502)	(904)
Total equity	**7,397,612**	**95,020**	**25,005**	**8,898**	**(152,309)**
B) Provisions for risks and charges	1,237,283	0	0	0	84,292
C) Post-employment benefits	849,167	0	8,147	0	0
D) Payables	90,234,384	483,569	392,962	916	237,672
E) Accrued expenses and deferred	164,800	0	0	0	0
Total liabilities	**99,883,244**	**578,590**	**426,114**	**9,816**	**169,656**
Income statement					
A) Production revenue	197,520,689	0	355,177	0	0
B) Production costs	(192,816,857)	(2,183)	(360,002)	(922)	(914)
Operating profit/(loss)	4,703,833	(2,183)	(4,825)	(922)	(914)
C) Net financial income / (expense)	244,270	14,079	(1,307)	(580)	(327)
D) Adjustments to financial assets	0	0	0	0	0
E) Extraordinary income / (expense	149,774	0	0	0	0
Pre-tax profit/ (loss)	**5,097,878**	**11,896**	**(6,132)**	**(1,502)**	**(1,241)**
Income tax	(1,695,859)	(3,664)	(701)	0	337
Net profit / (loss) for the year	**3,402,019**	**8,232**	**(6,833)**	**(1,502)**	**(904)**

ANNEX 5

Summary figures of the most recently approved financial statements of the subsidiaries in the publishing segment (31 December 2012).

	Cairo Editore Financial statements at 31.12.12	Cairo Publishing Financial statements at 31.12.12	Edizioni Anabasi Financial statements at 31.12.12
Assets			
A) Share capital proceeds to be received	0	0	0
B) Intangible fixed assets	14,424,181	15,847	0
Tangible fixed assets	2,228,177	2,597	0
Tangible financial assets	60,332	0	0
Total non-current assets	**16,712,690**	**18,444**	**0**
C) Inventories	3,627,765	228,749	0
Receivables	23,667,496	2,204,025	7,726
Current financial assets	0	0	0
Liquid funds	5,018,824	71,902	11,601
Total current assets	**32,314,085**	**2,504,676**	**19,326**
D) Prepayments and accrued income	269,070	2,990	0
Total assets	**49,295,845**	**2,526,110**	**19,326**
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	113
Retained earnings/(losses carried forward)	600,029	352,750	0
Net profit/ (loss) for the year	9,158,666	(287,054)	(1,174)
Total equity	**11,823,172**	**80,696**	**9,268**
B) Provisions for risks and charges	2,226,278	514,949	0
C) Post-employment benefits	2,375,751	132,820	0
D) Payables	32,686,053	1,797,645	10,058
E) Accrued expenses and deferred income	184,590	0	0
Total liabilities	**49,295,845**	**2,526,110**	**19,326**
Income statement			
A) Production revenue	111,123,082	1,617,860	1,000
B) Production costs	(98,239,092)	(1,987,220)	(2,667)
Operating profit/(loss)	12,883,990	(369,360)	(1,667)
C) Net financial income / (expense)	205,002	3,567	493
D) Adjustments to financial assets	0	0	0
E) Extraordinary income / (expenses)	710,510	0	0
Pre-tax profit/ (loss)	**13,799,502**	**(365,793)**	**(1,174)**
Income tax	(4,640,836)	78,740	0
Net profit / (loss) for the year	**9,158,666**	**(287,054)**	**(1,174)**

APPENDIX A

Information pursuant to art. 149-xii of Consob Regulations

The following summary, prepared pursuant to art. 149-xii of Consob Regulations, shows the fees for the current period for auditing services and for non-audit services provided by the Audit Firm.

€ thousands	**Services provided by**	**Fees for the year**
Audit		
Parent - Cairo Communication S.p.A.	KPMG S.p.A.	75
Subsidiaries		
- Cairo Pubblicità S.p.A.	KPMG S.p.A.	35
- Cairo Editore S.p.A.	KPMG S.p.A.	60
- La7 S.r.l.	KPMG S.p.A.	75
Certification		
Other		
Parent - Cairo Communication S.p.A. (*)	KPMG S.p.A.	26
La7 S.r.l. (**)	KPMG S.p.A.	24

* Audit related to the recognition of the acquisition of La7 S.r.l. ("business combination") pursuant to IFRS 3 at 30 April 2013

** Audit related to the first-time consolidation of La7 S.r.l. at 30 June 2013

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 Italian Civil Code

Shareholders,

pursuant to art. 2429 of the Italian 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 2013, we performed the oversight duties prescribed by law (art. 148 *et seq* of the above-mentioned Legislative Decree), taking also into account the standards of conduct recommended by the Italian Association of Public Accountants and Accounting Professionals, and the relevant instructions provided by CONSOB communications.

We remind you that the Board of Statutory Auditors in office, appointed by the Shareholders' Meeting of 28 April 2011, pursuant to art. 26 of the bylaws, which incorporates the provisions of law on listed companies regarding the appointment of members of the Board of Statutory Auditors based on lists submitted by shareholders, ends its term of office on approval of the financial statements for the year ended 31 December 2013 by the Shareholders' Meeting, which is called to renew the company body in accordance with the above statutory and regulatory provisions.

The above being stated, these are the results of the prescribed oversight duties performed during the year:

- we attended the Shareholders' Meetings and those of the Board of Directors held during the year, receiving from the Directors, in accordance with their obligations to report to the Board of Statutory Auditors, under art. 150, paragraph 1, of Legislative Decree n. 58/1998, timely and appropriate information on the overall business performance and outlook, and the most relevant transactions, in terms of size and nature, made by the Company and its subsidiaries;

- to the extent of our responsibilities, we gathered information on compliance with the law and bylaws, and oversaw compliance with the principles of proper governance and appropriateness of the Company's organizational structure, through direct observation, through information gathered from the managers of the departments involved, through regular exchange of information with the Audit Firm tasked with the statutory audit of the separate and consolidated financial statements, and by attending the meetings of the Control and Risks Committee, the Remuneration Committee and the Supervisory Body;

- we oversaw the operation and effectiveness of the internal control systems and the adequacy of the administrative-accounting system and, specifically, its reliability to properly illustrate operational events;
- pursuant to art. 19 of Legislative Decree n. 39/2010, we conducted oversight duties provided therein on: a) the disclosure of financial information; b) effectiveness of the internal control, internal audit and risk management systems; c) the statutory audit of the separate and consolidated financial statements; d) independence of the Audit Firm, through direct observation, information gathered from the managers of the departments involved, and by analyzing the results of the work performed 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; we received from the Audit Firm 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 the above Decree; we analyzed, again pursuant to art. 17, paragraph 9, lett. a) of the above Decree, the risks regarding independence of the Audit Firm and the measures it adopted to constrain such risks;
- we controlled the proper operation of the audit system on Group companies and the appropriateness of instructions given to them, pursuant also to art. 114, paragraph 2, of Legislative Decree n. 58/1998;
- we took note of the preparation of the Remuneration Report, pursuant to art. 123 *ter* of Legislative Decree n. 58 of 24 February 1998, and to art. 84 *quater* of CONSOB Regulations 11971/1999 ("**Issuers' Regulations**"), with no particular issues to report;
- we controlled the implementation processes of corporate governance rules provided by the Corporate Governance Code of Listed Companies issued by Borsa Italiana S.p.A., as adopted by the Company;
- we oversaw compliance of the internal procedure regarding related-party transactions with the principles contained in the Regulations approved by CONSOB through resolution n. 17221 of 12 March 2010 and subsequent amendments, and compliance with the above Regulations, pursuant to art. 4, paragraph 6;
- we 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 n. 11971 of 14 May 1999 and subsequent amendments and supplements thereto;

- assessed the adequacy, from a methodological point of view, of the process put in place by the Company for the accounting of the amounts recognized in the financial statements following the acquisition of La7 S.r.l., in accordance with IFRS 3;
- verified that the Directors' Report for 2013 complies with the laws and regulations, consistent with the resolutions adopted by the Board of Directors and with the facts illustrated in the separate and consolidated financial statements. The consolidated half-year report required no comments from the Board of Statutory Auditors. The half-year report and quarterly reports were published in accordance with the law and regulations currently in force.

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 major equity and financial relevance made during the period, also through subsidiaries, to verify that they were made in compliance with the law and bylaws and that they were neither imprudent or such as to jeopardize the integrity of corporate assets.

   In this regard, more specifically, mention must be made that on 30 April 2013, Cairo Communication completed the acquisition of La7 S.r.l. through the subsidiary Cairo Due. Starting from May 2013, the Cairo Group began implementing a restructuring plan for La7 S.r.l., with the aim of recovering profitability and efficiency. The effects are already noticeable and are shown in the consolidated financial statements submitted for your attention.

   We certify, therefore, that to the best of our knowledge, the above transactions were based on principles of proper governance and that the issues regarding potential or possible conflicts of interest were carefully assessed.

2. The characteristics of intra-group and related-party transactions put in place in 2013, the parties involved and the relating financial effects were appropriately explained in section 12 “Related-Party Transactions” in the consolidated financial

statements for the year ended 31 December 2013, to which reference is made. In this regard, the Board, in the course of its work, did not identify any atypical and/or unusual transactions made during the year with third and/or related parties. Mention must be made that, on 11 November 2010, the Board of Directors of the Company, under CONSOB Resolution n. 17221 of 12 March 2010 and subsequent amendments and supplements, had adopted new internal procedures governing the decision-making process and the required disclosures regarding related-party transactions (the "**Procedures**"), which came into effect as from 1 January 2011.

Pursuant to art. 4, paragraph 6 of the CONSOB Regulations approved by the above resolution n. 17221/2010, we oversaw:

i) compliance of the procedures adopted by the Company with the principles contained in the above regulations and their observance;

ii) fairness and correspondence of intra-group and related-party transactions with the interests of the Company.

3. In our view, the information provided by the Directors in their Report, pursuant to art. 2428 of the Italian Civil Code (Directors' Report), regarding atypical and/or unusual transactions and ordinary transactions, under the previous point, is to be considered exhaustive and complete.

4. KPMG S.p.A., the Audit Firm tasked with performing statutory audit, with which we held regular meetings during the year, today (7 April 2014) issued the Reports under art. 14 of Legislative Decree n. 39/2010, certifying that the separate and consolidated financial statements for the year ended 31 December 2013 are drawn up clearly and give a true and fair view of assets, liabilities, financial position, results of operations and other components of comprehensive income, changes in equity and cash flows of the Company and the Group, and certifying that the Directors' Report and the disclosures under art. 123-*bis*, paragraph 4, of Legislative Decree n. 58/1998 are consistent with the separate financial statements of the Company and with the consolidated financial statements of the Group. These reports do not contain any issues of note or explanatory comments.

5. In 2013, the Board received no complaints, pursuant to art. 2408 of the Italian Civil Code.

6. In 2013, the Board received no complaints from third parties.

7. In 2013, the Company assigned KPMG S.p.A. additional non-recurring tasks, as part of its statutory audit duties, regarding the purchase price allocation process and further audit work regarding the changed scope of consolidation following the acquisition of La7 S.r.l.. For these additional tasks, the Firm received a fee of Euro 49,500.00 (fortyninethousandfivehundred/00)
8. There are no reports of tasks assigned to subjects that are part of the “network” of the Audit Firm KPMG S.p.A..
9. In 2013, the Board issued its opinion as prescribed by law on the determination of compensation to managers holding strategic responsibilities, as established by the Board of Directors on the proposal of the Remuneration Committee.
10. In 2013, the Board of Directors met seven times, the Control and Risks Committee four times and the Board of Statutory Auditors five times. The Remuneration Committee met three times in 2013, while the Related Party Committee met only once.
11. The Board of Statutory Auditors acquired knowledge and oversaw compliance with the law and bylaws and observance of the principles of proper governance, ensuring that actions decided and taken by the Directors complied with the law 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.
12. With regard to the adequacy of the organizational structure of the Company and of the Group, the oversight duties of the Board of Statutory Auditors were performed by acquiring knowledge of the organizational structure through information gathered from each area, through meetings with the managers of the various departments and with the Audit Firm as part of a regular exchange of data and information.
13. The Board acquired knowledge and oversaw the adequacy and effectiveness of the internal control system, pursuant also to art. 19 of Legislative Decree 39/2010, through regular meetings with the Director in charge of the internal control system and with the internal audit manager, and through the presence of the Chairman of the Board of Statutory Auditors at the meetings of the Control and Risks Committee

and of all the members of the Board at the meetings with the Model 231/2001 Supervisory Body.

14. The Board also oversaw the adequacy and reliability of the administrative-accounting system to properly illustrate operational events, through direct observation, through information received by the managers of the departments involved, by examining company documents and by analyzing the results of the work performed by the Audit Firm.
15. The Board controlled the operation of the control system over subsidiaries and the adequacy of the instructions given to the subsidiaries by the Company, pursuant to art. 114, paragraph 2, of Legislative Decree n. 58/98, in order for the Group companies to provide the required information to comply with statutory disclosure obligations. No exceptions were reported in this regard.
16. During the regular meetings held by the Board of Statutory Auditors with the Audit Firm, pursuant to art. 150, paragraph 3, of Legislative Decree n. 58/1998, no relevant issues emerged that need to be mentioned in this Report.
17. The Board also controlled the implementation processes of corporate governance rules prescribed by the Corporate Governance Code of Listed Companies issued by Borsa Italiana S.p.A., as adopted by the Company;
18. With regard to the oversight duties performed as mentioned above, there were no omissions, reprehensible facts or irregularities reportable to the competent authorities and/or the supervisory boards, or worthy of mention in this Report.
19. Finally, the Board of Statutory Auditors performed its own assessments on compliance with the rules of law regarding the preparation of the draft separate financial statements and consolidated financial statements of the Group for the year ended 31 December 2013, of the relating explanatory notes and the Directors' Report attached thereto, either directly, assisted by department managers or through information received from the Audit Firm.

    Specifically, it is acknowledged that the separate and consolidated financial statements of Cairo Communication S.p.A. for the year ended 31 December 2013 were prepared in accordance with the "International Financial Reporting Standards" (IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Union, and in accordance with the provisions issued in implementation of art. 9 of Legislative Decree n. 38/2005.

Based on the foregoing considerations, with regard to the oversight duties performed during the year, the Board of Statutory Auditors has no remarks to make, pursuant to art. 153 of Legislative Decree n. 158/1998, to the extent of its responsibilities, on the separate and consolidated financial statements, and on the explanatory notes and Directors' Report, agreeing with the proposal of the Board of Directors to allocate profit for the year, and with the proposal to distribute dividends, contained in the Directors' Report to the IAS/IFRS separate financial statements of Cairo Communication S.p.A.

Milan 7 April 2014

Board of Statutory Auditors

Marco Moroni (Chairman)

Marco Giuliani

Maria Pia Maspes

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

ANNEX TO THE REPORT OF THE BOARD OF STATUTORY 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 Italian 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
Marco Moroni (Chairman of the Board of Statutory Auditors)			
1	Aston & Cooper Srl	Chairman of the Board of Statutory Auditors	31/12/2013
2	Betfair Italia Srl	Statutory Auditor	30/04/2015
3	Cairo Communication Spa	Chairman of the Board of Statutory Auditors	31/12/2013
4	Cairo Editore Spa	Chairman of the Board of Statutory Auditors	31/12/2013
5	Cairo Pubblicità	Chairman of the Board of Statutory Auditors	31/12/2015
6	Caseificio del Cigno	Statutory Auditor	31/12/2014
7	Dataprocess Holding Spa	Statutory Auditor	31/12/2013
8	D-Mail Group Spa	Chairman of the Board of Statutory Auditors	31/12/2015
9	Elettrodelta Spa In Liquidazione	Statutory Auditor	31/12/2014
10	La7 Srl	Statutory Auditor	31/12/2015
11	Locauto Rent Spa	Statutory Auditor	31/12/2015
12	Locauto Spa	Statutory Auditor	31/12/2015
13	Publicitas International Spa	Statutory Auditor	31/12/2015
14	Revicom Srl	Chairman of the Board of Directors	Until revocation
15	Sony Music Entertainment Italy Spa	Statutory Auditor	31/03/2016
16	Ut Communications Spa	Chairman of the Board of Statutory Auditors	31/12/2013
	Number of positions held in issuing companies	**2**	
	Total number of positions held	**16**	

N.	Company Name	Position	Until approval of the financial statements
Maria Pia Maspes (Statutory Auditor)			
1	Cairo Communication Spa	Statutory Auditor	31/12/2013
2	Cairo Pubblicità Spa	Statutory Auditor	31/12/2015
3	Cairo Editore Spa	Statutory Auditor	31/12/2013
4	UT Communications Spa	Statutory Auditor	31/12/2013
5	Torino FC Spa	Statutory Auditor	31/12/2013
6	LA7 Srl	Statutory Auditor	31/12/2015
7	Caminetti Montegrappa Srl	Chairman of the Board of Statutory Auditors	31/12/2015
8	G.B.H Spa	Statutory Auditor	31/12/2015
9	Alto Partnes SGR Spa	Statutory Auditor	31/12/2015
10	Italholding Spa	Statutory Auditor	31/12/2015
11	MAB Spa	Statutory Auditor	31/12/2014
12	Eurofly services	Statutory Auditor	31/12/2013
13	Loellum Consorzio di Cooperative - Cooperativa sociale	Statutory Auditor	31/12/2014
14	Kelly service Spa	Statutory Auditor	31/12/2014
15	Aliserio Srl	Statutory Auditor	31/12/2014
	Number of positions held in issuing companies	**1**	
	Total number of positions held	**15**	

N.	Company Name	Position	Until approval of the financial statements
Marco Giuliani (Statutory Auditor)			
1	Cairo Communication Spa	Statutory Auditor	31/12/2013
2	Ali Spa	Statutory Auditor	31/08/2015
3	Banca Esperia Spa	Statutory Auditor	31/12/2014
4	Banca Mediolanum Spa	Statutory Auditor	31/12/2014
5	Hotel Cipriani Srl	Statutory Auditor	31/12/2013
6	Hotel Caruso Srl	Single Statutory Auditor	31/12/2014
7	Hotel Splendido Srl	Statutory Auditor	31/12/2013
8	Mediolanum Gestione Fondi Spa	Statutory Auditor	31/12/2015
9	Rothschild Italia Spa	Statutory Auditor	31/03/2016
10	Yara Italia Spa	Statutory Auditor	31/12/2014
11	Bg Italia Power Spa	Statutory Auditor	31/12/2014
12	Space Spa	Statutory Auditor	31/12/2015
13	Tioxide Europe Srl	Statutory Auditor	31/12/2015
	Number of positions held in issuing companies	**1**	
	Total number of positions held	**13**	

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI

Telefono +39 02 6763.1
Telefax +39 02 67632445
e-mail it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(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 2013, 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 dated 5 April 2013 for our 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 2013 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 2013, 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 2013.

Milan, 7 April 2014

KPMG S.p.A.

(signed on the original)

Francesco Spadaro
Director

CERTIFICATION OF 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 Legislative Decree n. 58 of 24 February 1998, certify:

• the adequacy of the characteristics of the company and

• the effective application of administrative and accounting procedures for the preparation of the 2013 financial statements.

2. We also certify that

2,1 the separate financial statements at 31 December 2013:

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, 11 March 2014

For the Board of Directors
Chairman
……………………………………………
…………………………………..
(Urbano Roberto Cairo)

Financial Reporting Manager
………………………………………….
(Marco Pompignoli)