CAIRO COMMUNICATION

Quarterly Report at 31 March 2006

Cairo Communication SpA
Head office: Via Tucidide 56, Milan, Italy
Share capital: € 4,073,857

Corporate Governance

Board of Directors

Urbano Cairo*	Chairman
Uberto Fornara	CEO
Roberto Cairo	Director
Marco Janni	Director
Antonio Magnocavallo	Director
Marco Pompignoli	Director
Roberto Rezzonico	Director

Board of Auditors

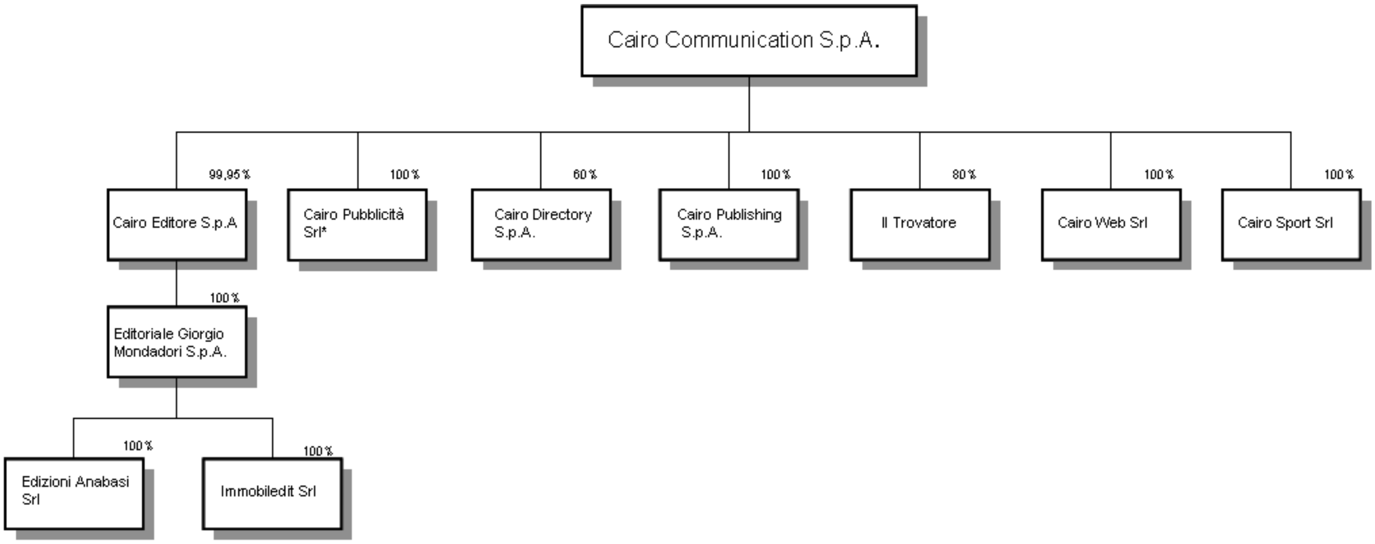
Mauro Sala	Chairman
Marco Baccani	Principal auditor
Maria Pia Maspes	Principal auditor
Mario Danti	Alternate auditor
Ferdinando Ramponi	Alternate auditor

Statutory Auditors

Deloitte & Touche S.p.A.

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

Cairo Communication
Group Structure



1. Basis of preparation and valuation principles

These financial statements have been prepared in accordance with international accounting standards, as were those at 31 December 2005 (the first financial statements issued by Cairo Communication subsequent to the expiry of the transition period introduced by Art. 82 section 2 of the Consob Regulations for Issuers). In accordance with Art. 82 section 2 of the financial regulations, the methods of presenting the quarterly reports have not been changed on previous quarters. The Cairo Communication Group annual financial report at 30 September 2006 will be the first to be prepared in accordance with IAS/IFRS international accounting standards.

In the sections “IAS/IFRS international accounting standards and valuation criteria” and “Application of IAS/IFRS international accounting standards and their effects” of the appendices to the quarterly report at 31 December 2005, the following are included:

1 The information required under Consob statement No. 14990 of 14 April 2005 which refers to the reconciliation of net equity at 1 October 2004 with that at 30 September 2005 and the results of the financial year ended 30 September 2005 prepared in accordance with Italian accounting standards and the IAS/IFRS international accounting standards respectively;

2 A description of the primary differences between Italian accounting standards used previously and the IAS/IFRS international accounting standards;

3 The accounting practices chosen by the Group from the options allowed under the IAS/IFRS international accounting standards;

4 The optional exemptions allowed under IFRS No. 1 used by the Group;

5 A summary of the primary accounting principles adopted;

6 A detailed account of the effect of the transition to IAS/IFRS international accounting standards on the Balance Sheet at 31 December 2004 and the Income Statement for the 1st quarter ended 31 December 2004.

In the section “Reconciliation of net equity and the quarterly results at 31 March 2005” of the “Transition to the IAS/IFRS international accounting standards” appendix to these financial statements, a detailed account of the effects of the transition to IAS/IFRS international accounting standards on the Balance Sheet at 31 March 2005 and the Income Statement for the 1st half year and 2nd quarter ended 31 March .

During this period, no changes have been made to the consolidation scope so it remains unchanged from that detailed in the financial statements at 30 September 2005.

The financial results presented refer to the 2005-2006 1st half-year and 2nd quarter and are presented with those for the corresponding periods of the 2004-2005 financial year, and at 30

September 2005, restated in accordance with international accounting standards, for increased transparency.

The financial statements at 31 March 2006 have been prepared on a pre-tax basis.

Parent Company financial statements have been prepared using valuation principles unchanged on those used at 30 September 2005.

Parent Company financial results for the 2005-2006 1st half-year and 2nd quarter are presented with those for the corresponding periods of the 2004-2005 financial year and the figures at 30 September 2005, restated in accordance with international accounting standards, for increased transparency.

EXECUTIVE SUMMARY

During this period, the Cairo Communication Group continued to operate as a publisher of books and magazines (Editoriale Giorgio Mondadori, Cairo Publishing and Cairo Editore publishing houses), as a multimedia advertising broker selling advertising time/space on TV networks, in print media and on Internet sites and as operator of Internet sites (Il Trovatore) while the development of the Cairo Directory has continued.

Over the February 2005 – January 2006 twelve month period, "Settimanale Di Più", the second best-selling magazine in Italy, has enjoyed average ADS sales of 818,012 copies and "Di Più TV" 668,308 copies, further consolidating their extraordinary success to date.

In light of the positive response of the public and the magazine's strong sales figures, from September 2005 the cover price of "Di Più TV" was increased from € 0.50 to € 0.70. This price increase is expected to have a positive effect of € 4.5 million on income and margins at Group level over the 2005-2006 financial year.

During this half year, two new monthly magazines were launched, "Di Più TV Cucina" in November 2005 and "Di Più TV Stellare" in January 2006. These titles are sold with "Di Più TV" for a total price of € 1. Both magazines have been very well received by the public, with sales of "Di Più TV Cucina" for the first six issues averaging 331,666 copies and sales for the sixth issue reaching 430,000 copies. "Di Più TV Stellare" has also performed very well with average sales of 311,000 copies for the first three issues.

Over the January - March 2006 three month period, "Settimanale Di Più" generated sales at Group level of € 11 million, in line with those for the same period last year while sales of "Di Più TV" reached € 7.3 million, an increase of 85% on the same period last year, the magazine's first quarter on the market, having been launched in January of that year.

The first ten issues of "Diva e Donna", Cairo Editore's new weekly magazine for women edited by Silvia Giacobini, has recorded average sales of 266,361 copies. These extremely satisfying results are in line with forecasts. This new title has been supported by a € 3.5 million campaign of pre-publication and launch activities, including a TV and print media advertising campaign, plus a further € 1 million in advertising since then.

Advertising sales on the La 7 TV network for the January – March 2006 period totalled € 27 million, an increase of 17.2% on the same period last year. Over the October 2005 – March 2006 six month period, sales grew 1.6% to € 56.5 million (against TV advertising sales market growth of 3% over the October 2005 – February 2006 five month period: source AC Nielsen)

From February 2006, Cairo Publishing began to publish the first titles from their initial catalogue of 16 books, the result of contracts with authors and foreign publishers. The company plans to publish 50 titles during the 2006 calendar year, generating sales of € 2.9 million.

CAIRO COMMUNICATION GROUP - FINANCIAL RESULTS

Cairo Communication Group Consolidated Income Statement

(€ thousands)	31 March 2006 (HY)	31 March 2006 (Q2)	31 March 2005 (HY)	31/03/2005 (Q2)
Sales	123,993	58,929	96,976	46,664
Advertising agency discounts	(12,165)	(5,584)	(9,919)	(4,698)
Inventory movements	385	239	(125)	(139)
Other operating revenues	1,279	740	1,133	489
Operating revenues	**113,492**	**54,324**	**88,065**	**42,316**
Cost of sales	(98,409)	(47,913)	(77,858)	(40,171)
Personnel costs	(10,941)	(5,393)	(7,772)	(3,529)
Gross operating profit (EBITDA)	**4,142**	**1,018**	**2,435**	**(1,384)**
Depreciation and provision charges	(2,078)	(1,167)	(1,655)	(855)
Operating profit (EBIT)	**2,064**	**(149)**	**780**	**(2,239)**
Net finance income	922	451	1,060	492
Investment writedowns	0	0	(5)	(5)
Profit from ordinary activities	**2,986**	**302**	**1,835**	**(1,752)**
Net exceptional expenses	0	0	0	0
Minority interest	1,897	883	1,152	601
Profit before tax	**4,883**	**1,185**	**2,987**	**(1,151)**

The excellent sales performance of Group publications and the strong growth recorded in advertising sales relating to the La 7 TV network have allowed gross operating revenues for the Cairo Communication Group to grow from € 47.2 million last year to € 59.7 million, an increase of 26%. Of note, income at Group level from the publishing sector has grown 30% from € 26.2 million to € 34.2 million.

Gross operating profit (EBITDA) was € 1 million (against a loss of € 1.4 million for the same period last year) while the operating profit (EBIT) for this quarter was a loss of just € 0.1 million against a loss of € 2.2 million for the 2nd quarter of last year, restated in accordance with IAS/IFRS international accounting standards.

An analysis of the effect of the application of the IAS/IFRS international accounting standards on net equity and the financial statements at 31 March 2005 is presented in the second section "Reconciliation of net equity and financial results at 31 March 2005" of the appendix "Transition to IAS/IFRS international accounting standards".

The results for the 2nd quarter of the 2005-2006 financial year were negatively affected by the heavy expenditure on advertising the new editorial initiatives, including launch costs totalling € 1.8 million relating to the two monthly titles, “Di Più TV Cucina” and “Di Più TV Stellare”, (€ 0.8 million) and the weekly magazine “Diva e Donna” (€ 1 million). Launch costs of € 3.5 million were incurred during the 1st quarter of this year. The financial results for the same period last year included pre-publication and launch costs relating to “Di Più TV” of € 4.2 million.

The quarterly results also include losses incurred during this period by Cairo Directory of € 2 million at gross operating profit level (€ 1.2 million during the same period last year, restated in accordance with IAS/IFRS international accounting standards). In comparison with the results of the subsidiary company, the minority interest for the quarter was a loss of € 1 million.

During the first half of the 2005-2006 financial year, gross operating revenues totalled € 125.3 million (€ 98.1 million during the same period last year), including sales of € 124 million and other revenues of € 1.3 million, up 27% on the same period last year.

Gross operating profit (EBITDA) for this half-year was € 4.1 million (€ 2.4 million for the same period last year, restated in accordance with IAS/IFRS international accounting standards) and operating profit (EBIT) totalled € 2.1 million (€ 0.8 million for 2004-2005, restated in accordance with IAS/IFRS international accounting standards).

2005-2006 1st half-year results were negatively affected by the expensing of pre-publication and launch costs relating to “Diva e Donna” (€ 3.5 million), which in accordance with Italian accounting standards used in previous years would have been spread over the first twelve months of the magazine’s publication, as would the launch costs relating to the two monthly titles, “Di Più TV Cucina” and “Di Più TV Stellare”, (€ 0.8 million) and the weekly magazine “Diva e Donna” (€ 1 million). Together these represent a total investment of almost € 5.5 million in new editorial projects, the largest investment made by the Group to date in a single half-year period. The 2004-2005 1st half-year results included launch costs relating to “Di Più TV” of € 4.2 million.

2005-2006 1st half-year results were also negatively affected by personnel costs and general expenses relating to Cairo Directory, totalling €4.3 million at gross operating profit level (€ 2.5 million for 2004-2005, restated in accordance with IAS/IFRS international accounting standards).

In comparison with the results of the subsidiary company, the minority interest for the half-year was a loss of € 2 million.

In accordance with the applicable CONSOB regulation, Cairo Communication Group financial statements for the 2005-2006 2nd quarter and 1st half-year ending 31 March 2006 have been prepared on a pre-tax basis, consistent with the financial statements prepared for the same period of the previous financial year.

Cairo Communication Group
Consolidated Balance Sheet
at 31 March 2006

(€ thousands)	31 March 2006	30 Sept. 2005
ASSETS		
Property, plant and equipment	3,704	3,765
Intangible assets	11,691	11,483
Investments	6,018	6,013
Net current assets	(9,580)	(7,320)
Total Assets	**11,833**	**13,941**
EQUITY AND LIABILITIES		
Non-current borrowings and provisions	5,500	5,298
Net financial assets	(89,316)	(107,519)
Shareholders' equity	97,710	117,986
Minority interest	(2,061)	(1,824)
Total Equity and Liabilities	**11,833**	**13,941**

** Figures at 31 March 2006 are expressed on a pre-tax basis*

The meeting of Cairo Communication Group shareholders of 30 January 2006 decided to distribute a total of € 23.5 million in dividends, at € 3 per share, before withholding tax. At 31 March 2006, € 19.8 million had been distributed.

Cairo Communication Group

Consolidated Net Financial Position Statement

at 31 March 2006

(€ thousands)	31 March 2006	30 Sept. 2005	Change
Bank and cash	89,118	100,376	(11,258)
Surety deposit	7,137	7,092	45
Short term investments:			
- Other securities	160	82	78
- Insurance financial income receivable	6,000	6,000	0
Bank loans	(13,099)	(6,031)	(7,068)
Total	**89,316**	**107,519**	**(18,203)**

Investments include a current bank account registered in the name of both Cairo Communication SpA and Telepiù SpA of € 6,995 thousand (€7,137 thousand including accrued interest). This deposit was made as a result of a settlement agreement reached by the parties during appeal proceedings for a precautionary seizure requested by the Company before the Court at Milan, as a guarantee on the Company's right to damages from Tele+ SpA. Cairo Communication has lodged the requisite funds in accordance with Tele+ accounts from 2004, awaiting the arbitrators' decision.

The Group manages its cash and bank assets very prudently, investing for the most part in interbank deposits.

The Group has subscribed to a € 6 million insurance financial product, Elios Coupon, offered by Antonveneta Vita. This insurance policy provides a minimum annual return of 3% net of management fees.

Analysis of Quarterly Group Sales and Other Operating Revenues by Business Segment

	2nd quarter ending 31 March 2006			**2nd quarter ending 31 March 2005**		
(€ thousands)	**Publishing**	**Advertising**	**Total**	**Publishing**	**Advertising**	**Total**
Magazine over-the-counter sales	17,193	0	17,193	12,030	0	**12,030**
Print media advertising space sales	7,949	3,870	11,819	6,518	2,599	**9,117**
TV advertising time sales	0	28,500	28,500	0	24,757	**24,757**
Electronic billboard ad sales	0	0	0	0	0	**0**
Stadium signs ad space sales	0	568	568	0	0	**0**
Internet advertising time sales	0	0	0	0	14	**14**
Magazine subscription sales	845	0	845	837	0	**837**
Audiovisual and other sales	0	59	59	10	0	**10**
Books and catalogues	274	0	274	122	0	**122**
VAT relating to publications	(330)	0	(330)	(223)	0	**(223)**
Total - Sales	**26,014**	**32,914**	**58,928**	**19,294**	**27,370**	**46,664**
Other operating revenues	437	303	**740**	631	218	**489**
Total - Gross Operating Revenues	26,451	33,217	**59,668**	19,925	27,588	**47,153**

No analysis by geographic region is provided, as all sales are generated in Italy.

The excellent performance of "Settimanale Di Più", "Di Più TV" and the launch of the new magazine "Diva e Donna" have led to a sharp increase in publishing income.

Group advertising sales, inclusive of intra-Group sales of € 27.7 million, amount to € 34.2 million, up 30% on last year (€ 26.2 million inclusive of intra-Group sales of € 6.3 million), due to advertising income from new publishing initiatives and the strong growth in advertising time sales on the La 7 TV network.

Analysis of 1st Half-Year Consolidated Income Statement Results by Business Segment

	1st half-year ending 31 March 2006			1st half-year ending 31 March 2005		
(€ thousands)	**Publishing**	**Advertising**	**Total**	**Publishing**	***Advertising***	***Total***
Magazine over-the-counter sales	32,536	0	**32,536**	22,561	0	**22,561**
Print media advertising space sales	17,454	8,886	**26,340**	12,736	6,192	**18,928**
TV advertising time sales	0	61,765	**61,765**	0	53637	**53,637**
Electronic billboard ad sales	0	0	**0**	0	0	**0**
Stadium signs ad space sales	0	1,544	**1,544**	0	0	**0**
Internet advertising time sales	0	18	**18**	0	23	**23**
Magazine subscription sales	1,693	0	**1,693**	1,670	0	**1,670**
Audiovisual and other sales	6	59	**65**	67	0	**67**
Books and catalogues	642	0	**642**	537	0	**537**
VAT relating to publications	(611)	0	**(611)**	(447)	0	**(447)**
Total - Sales	**51,720**	**72,272**	**123,992**	**37,124**	**59,852**	**96,976**
Other operating revenues	694	585	1,279	1,846	557	**1,133**
Total - Gross Operating Revenues	**52,414**	**72,857**	**125,271**	38,970	60,650	**99,620**

CAIRO COMMUNICATION GROUP OPERATING RESULTS

PUBLISHING BUSINESS

CAIRO EDITORE SPA - EDITORIALE GIORGIO MONDADORI SPA (EGM) – CAIRO PUBLISHING SRL

Revenues from the Group publishing business increased sharply during this period, up 33% to € 26.5 million. When advertising agency revenue of € 7.7 million is included, this figure at Group level reaches € 34.2 million (€ 26.2 million last year, including € 6.3 million in advertising agency revenue). This considerable increase is largely due to the excellent performance of “Settimanale Di Più”, “Di Più TV” and the new magazine “Diva e Donna”.

These figures have led the Group to forecast a strong positive impact on Group profitability margins by both titles, particularly as the cover price for “Di Più TV” was increased from € 0.50 to € 0.70 in September 2005.

During the 2005-2006 1st half-year, “Di Più TV Cucina” and “Di Più TV Stellare” were launched (in January 2006). These titles are sold with “Di Più TV” for a total price of € 1. Both magazines have been very well received by the public, with sales of “Di Più TV Cucina” for the first six issues averaging 331,666 copies with sales for the sixth issue reaching 430,000 copies. “Di Più TV Stellare” has also performed very well with average sales of 311,000 copies for the first three issues.

The launch of the new monthly magazines sold with “Di Più TV” and the weekly magazine for women, “Diva e Donna”, following the four other titles, “For Men Magazine” and “Natural Style” in 2003, “Settimanale Di Più” in 2004 and the television guide “Di Più TV” in 2005, will allow for further streamlining of existing structures, as EGM has made its company structure available to Cairo Editore, providing assistance with management, administration, financial controls, subscription management, production, sales, marketing, distribution, premises and related services.

During this period, Editoriale Giorgio Mondadori continued to focus its activities on the magazines “Bell’Italia”, “Bell’Europa”, “In Viaggio”, “Airone”, “Gardenia”, “Arte” and “Antiquariato”.

With “Diva e Donna” consolidating the success enjoyed by “Settimanale Di Più” (average sales of 818,012 copies) and “Di Più TV” (average sales 668,308 copies), Cairo Editore has continued its aggressive development strategy in the weekly magazine market. If magazines sold with daily newspapers are excluded, this total of 1,750,000 copies sold per week places Cairo Editore as the second best-selling publisher of weekly magazines in Italy.

During March 2006, Editoriale Giorgio Mondadori completed the re-styling of “In Viaggio”, the first issue of which sold 47,000 copies, up from average sales of 19,000 for previous issues.

“Bell’Italia”, “Bell’Europa” and “In Viaggio” have maintained strong sales figures, despite marketplace competition. Of note, during the 2005 calendar year, sales figures for these three titles fell just 3% on sales figures for 1999 (91,081 copies) while sales figures for the seven primary competitors fell by 47%.

February 2006 saw Cairo Publishing, established during December 2004, begin to publish the first of its initial catalogue of 16 books, the results of some large contracts with authors and foreign publishers. The company plans to publish 50 books during the 2006 calendar year.

ADVERTISING BUSINESS

A) TELEVISION

During this financial period, advertising sales continued on La 7 and the specialty channels Cartoon Network and Boomerang, Bloomberg and CNN.

The contract for the sale of advertising time on the La 7 broadcaster was automatically renewed for the 2006-2008 three year period, reflecting the total sale of advertising time for third party clients (those other than the "captive" element, our own publishing division) over the 2003-2005 three year period of € 234 million, far exceeding the contractual objective of € 228 million set for the contract's automatic renewal.

Sales of advertising time on the La 7 broadcaster for the January – March 2006 period totalled € 27 million, up 17.2% on the same period last year.

The arbitration between Cairo TV and Telepiù SpA is ongoing (chairman Prof. Raffaele Nobili) in which both parties have requested the resolution of the contract and an award of damages. The Board of Arbitration is made up of Prof Raffaele Nobili, chairman, Prof Guido Rossi, nominated by Cairo TV and Vittorio Colesanti, nominated by Telepiù SpA. Following the exchange of testimonies and cross-examination of the parties, the deposition of technical reports has taken place, with Dr. Alberto Giussani nominated as CTU. The Directors are of the opinion that the Tele+ challenges, raised for the first time 6 years after the contract was signed, close to the exclusion of Cairo from the contract and the suspension of advertising sales activities on 31 July 2003 by Sky (when they should have continued to June 30, 2004) are unjustified. However, the challenges of Cairo TV, based on the violation of a ten-year contractual obligation and of the cessation of this contract, give basis to the claims of the company, even in the case of change of ownership.

As part of these arbitration proceedings, Cairo has requested large damages from Telepiù for lost profits, consequential damages and for damage to the company's reputation.

PRINT MEDIA DIVISION

Cairo Communication SpA continued with its sale of advertising space for:

- "For Men Magazine", "Natural Style", "Settimanale Di Più", ""Di Più TV" and "Diva e Donna", published by Cairo Editore;

- “Bell’Italia”, “Bell’Europa”, “In Viaggio”, “Airone”, “Gardenia”, “Arte” and “Antiquariato”, published by Editoriale Giorgio Mondadori;
- “Prima Comunicazione” and “Burda”.

During this period, print media income grew from € 33.9 million (before intra-Group sales of € 6.3 million) to € 40.9 million (before intra-Group sales of € 7.7 million), largely due to the success of “Settimanale Di Più”, “Di Più TV” and “Diva e Donna”.

INTERNET DIVISION – IL TROVATORE

During this year, development of the search engine Il Trovatore has continued, as it enjoyed high numbers of pages viewed, hits and service subscriber numbers, totalling 10 million, 22 million and 415,000 respectively at 31 March 2006. Development activities have focussed on the search for sources of income complementary to those from advertising space sales, and the provision of technology services.

DIRECTORY DIVISION – CAIRO DIRECTORY

Development of Cairo Directory, the company established in April 2004 to bring Cairo Communication into the telephone directory market, is ongoing. Now that the company has completed its start-up phase, advertising sales are underway, with a particular focus on certain regions of Italy. During this period, € 2 million in operating costs were incurred at gross operating profit level, primarily personnel costs and general expenses.

Following legal proceedings by Seat Pagine Gialle SpA against an ex employee, currently employed by Cairo Directory (owned by 60% by Cairo Communication), and investigations that took place without Cairo Directory’s permission, the seizure of the company’s information system was ordered, but the Public Prosecutor, taking into account the reports and the technical advice given by Cairo Directory, has given it back to the company in custody with full opportunity of usage. This has been done to assure the smooth running of the company’s commercial operations. Expert assessments are currently underway which involve all related parties, including some company employees other than those subject to the aforementioned proceedings.

Cairo Directory S.p.A. has moreover commenced legal action in July 2005 to request that the Court of Bologna considers the annulment of Emiliano Motti's Guida Più brand and to consider the legitimacy of the use of the Guidaqui brand (registered by Cairo Directory) and at the same time to consider the illegal competitive conduct of Mr Motti's company in imitating the graphical format and original content of the Guidaqui product.

GROUP INVESTMENTS

The following table lists the Group's investments in non-current assets.

(€ thousands)	31 March 2006 (Q2)	31 March 2006 (HY)	31 March 2005 (Q2)	31 March 2005 (HY)
Incorporation and listing costs	0	0	0	0
Publications development	0	0	0	0
TV ad time sales rights & computer software	236	710	585	898
Current costs and down payments	52	121	0	0
Consolidation differences	0	0	0	0
Magazine titles	0	0	0	0
Other	12	28	23	24
Total investments in intangible assets	**300**	**859**	**608**	**922**
Land and buildings				
Machinery	25	25	0	0
Other	99	197	255	519
Assets under construction				
Total investments in property, furniture and equipment	**124**	**222**	**255**	**519**
Investments	0	0	0	0
Financial receivables from associates	12	9	0	0
Total investments in non-current financial assets	**12**	**9**	**0**	**0**
Total	**436**	**1,090**	**863**	**1,441**

CAIRO COMMUNICATION SPA – FINANCIAL RESULTS

Parent Company Income Statement

(€ thousands)	31 March 2006 (Q2)	31 March 2006 (HY)	31 March 2005 (Q2)	31 March 2005 (HY)
Sales	82,556	37,781	72,771	33,994
Less: advertising agency discounts	(8,919)	(4,172)	(9,919)	(4,700)
Other operating revenue	523	405	780	152
Operating revenues	**74,160**	**34,014**	**63,632**	**29,446**
Cost of sales	(69,348)	(32,054)	(56,791)	(25,974)
Personnel costs	(1,177)	(524)	(2,330)	(1,005)
Gross operating profit (EBITDA)	**3,635**	**1,436**	**4,511**	**2,467**
Depreciation, amortisation and provision charges	(1,066)	(484)	(2,857)	(1,410)
Operating profit (EBIT)	**2,569**	**952**	**1,654**	**1,057**
Net finance income	1,158	697	944	408
Investments writedowns	0	0	(5)	(5)
Profit on ordinary activities	**3,727**	**1,649**	**2,593**	**1,460**
Exceptional expenses	0	0	(636)	(636)
Profit before tax	**3,727**	**1,649**	**1,957**	**824**

The half-yearly and quarterly financial statements for Cairo Communication are not completely comparable with those for the same period last year as in June 2005 Cairo Communication S.p.A. conferred to its subsidiary, Cairo Pubblicità Srl, its own company branch, comprising the sales network relating to the sale of advertising time. As a result of this, the structure of the Parent Company's Income Statement has been partly modified, as Cairo Pubblicità operate:

- As a subagent of Cairo Communication for print media advertising sales (Cairo Editore, Editoriale Giorgio Mondadori and Editoriale Genensis magazines), remitting to Cairo Communication a percentage of revenue generated.
- With two different contractual roles, one of agent, receiving commission and another as commercial services provider, earning a percentage of revenues generated, for television advertising sales (La 7, Cartoon Network, Boomerang, CNN and Bloomberg).

Since May 2005, Cairo Pubblicità has been responsible for all costs related to this company branch and its staff.

Cairo Communication SpA gross operating revenues for this quarter totalled € 83 million. The gross operating profit (EBITDA) totalled € 3.6 million, down from € 4.5 million in the previous financial year. The operating profit (EBIT), totalling € 2.6 million, up from € 1.7 million last year. During the January – March 2005 period, Cairo Pubblicità Srl was not yet in operation. When the results of this company are taken into consideration, the two companies together generated gross operating revenues of € 117 million, EBITDA of € 7.2 million and EBIT of € 5.2 million.

The considerable improvements in the financial results reflect the increase in advertising sales relating to new publications and TV advertising time sales contracts, particularly La 7 and the Cartoon Network.

Cairo Communication SpA Parent Company Balance Sheet

(€ thousands)	31 March 2006	30 September 2005
Assets		
Property, furniture and equipment	357	386
Intangible assets	2,821	3,366
Investments	17,439	16,121
Treasury shares	1,986	86
Other net current assets	12,014	23,323
Total Assets	**34,617**	**43,282**
Equity and Liabilities		
Non-current borrowings and provisions for liabilities	429	387
Net financial assets	(89,228)	(100,165)
Borrowings from unconsolidated subsidiary	4,885	4,885
Shareholders’ equity	118,531	138,175
Total Equity and Liabilities	**34,617**	**43,282**

**Figures at 31 March 2006 are expressed on a pre-tax basis*

Current assets include € 15.9 million generated by the sale of the share in Editoriale Giorgio Mondadori to the Cairo Editore subsidiary. The contract provided for the payment for the sale of € 5 million by 5 August 2005 and the remainder by 29 September 2005, without interest, or else five consecutive annual instalments of equal value, with interest, from 1 October 2005, with no early exit option. A further payment of € 5 million was made during March 2006.

As discussed above, the meeting of Cairo Communication Group shareholders of 30 January 2006 decided to distribute a total of € 23.5 million in dividends, at € 3 per share. At 31 March 2006, € 19.8 million had been distributed.

During the first half of the 2005-2006 financial year, 41,250 treasury shares were acquired. Cairo Communication currently holds 43,842 treasury shares, at an average value of € 45.3.

Cairo Communication SpA - Parent Company Statement of Net Financial Position

Cairo Communication SpA	31 March 2006	30 Sept. 2005	Change
Bank and cash	75,930	87,019	(11,089)
Surety deposit	7,137	7,092	45
Insurance financial products	6,000	6,000	0
Marketable securities	161	82	79
Bank loans	0	(28)	28
Net financial assets	**89,228**	**100,165**	**(10,937)**
Immobiledit borrowings	(4,885)	(4,885)	0
Net financial position	**84,343**	**95,280**	**(10,937)**

As discussed above, financial assets include a surety deposit of € 6,995 thousand (€7,137 thousand including accrued interest).

OUTLOOK

Cairo Communication Group will focus on developing its core businesses during the 2005-2006 financial year. It will focus on the development of its Publishing business operated by its Cairo Editore SpA and Editoriale Giorgio Mondadori (EGM), Cairo Directory and Cairo Publishing subsidiaries, as well on its Advertising business, in particular the sale of advertising space in its own magazines including the newest addition to the range, “Diva e Donna”, and the sale of advertising time on the La 7 TV network and selected analogue and digital pay TV specialty channels.

Cairo Directory is continuing its advertising sales initiatives, with particular focus on certain geographical regions.

The first ten issues of “Diva e Donna”, Cairo Editore’s new weekly magazine for women edited by Silvia Giacobini, recorded average sales of 266,361 copies per issue. These extremely satisfying results are in line with forecasts.

Over the February 2005 – January 2006 twelve month period, “Settimanale Di Più”, the second best-selling magazine in Italy, enjoyed average ADS sales of 818,012 copies and “Di Più TV” 668,308 copies, further consolidating their extraordinary success to date.

During this half year, two new monthly magazines were launched, “Di Più TV Cucina” in November 2005 and “Di Più TV Stellare” in January 2006. These titles are sold with “Di Più TV” for a total price of € 1. Both magazines have been very well received by the public, with sales of “Di Più TV Cucina” for the first six issues averaging 331,666 copies with sales for the sixth issue reaching 430,000 copies. “Di Più TV Stellare” has also performed very well with average sales of 311,000 copies for the first three issues.

Revenues from “Settimanale Di Più” and “Di Più TV” are expected to increase, both from advertising sales and eventual cover price increases further to that already applied to “Di Più TV”. That price increase is expected to have a positive effect of € 4.5 million on income and margins at Group level over the 2005-2006 financial year.

With “Diva e Donna” consolidating the success enjoyed by “Settimanale Di Più” and “Di Più TV”, Cairo Editore has continued its aggressive development strategy in the weekly magazine market. If magazines sold with daily newspapers are excluded, this total of 1,750,000 copies sold per week places Cairo Editore as the second best-selling publisher of weekly magazines in Italy.

The success of the initiatives undertaken in less than three years (“Settimanale Di Più”, “Diva e Donna”, “Di Più TV”, “Di Più TV Cucina”, “Di Più TV Stellare”, “For Men Magazine” and “Natural Style”) has further increased the dynamism of the Cairo Communication Group. Further new publishing projects are currently under consideration.

Chairman of the Board of Directors
Urbano R. Cairo

CAIRO COMMUNICATION

Transition to IAS/IFRS international accounting standards

Reconciliation of net equity and financial statements at 31 March 2005

Reconciliation of net equity and financial statements at 31 March 2005

The reconciliation of net equity and the half-yearly financial statements at 31 March 2005, calculated in accordance with Italian accounting principles, and then restated with IAS/IFRS international accounting standards, can be analysed as follows:

	1 Oct 2004	Distribution of dividends	Other net equity movements	Group results	31 March 2005
Equity calculated using Italian accounting standards	**129,742**	**(12,531)**	**0**	**4,649**	**121,860**
IAS/IFRS Variations:					
- Transfer/ Write off of incorporation and listing costs	(8)	0	0	(8)	(16)
- Transfer/ Write off of start up costs relating to Cairo Directory	(977)	0	0	(2,462)	(3,439)
- Transfer/ Write off of amortisation relating to consolidation difference	0	0	0	300	300
- Transfer/ Write off of accumulated amortisation relating to real estate which has been built upon	62	0	0	7	69
- Reclassification of treasury shares	(765)	0	728	(14)	(51)
- Benefits to management	0	0	85	(85)	0
- Transfer/ Write off of prepublication and launch costs relating to new publications	(1,613)	0	0	(1,917)	(3,530)
- Different treatment of corresponding entries to advertising income	(3,687)	0	0	1,532	(2,155)
Related fiscal effect	2,277	0	0	0	2,277
Total IAS/IFRS variations	(4,711)	0	813	(2,647)	(6,545)
Minority interest on IAS/IFRS variations	262	0	0	985	1,247
Group net equity calculated in accordance with IAS/IFRS international accounting standards	**125,293**	**(12,531)**	**813**	**2,987**	**116,562**

With regard to the application of the valuation principles in IAS No. 19 to the provision for retirement benefits and the staff severance provision, (projected unit credit method), the actuarial value has been obtained, which does not show significant effect on the items involved or the net equity and the financial results for the year. As a result, the figures obtained with the application of Italian accounting principles have not been adjusted.

Notes to the reconciliation of net equity at 1 October 2005 and at 31 March 2005 and the financial statements for the 1st half year ended 31 March 2005

Intangible assets

The application of IAS/IFRS international accounting standards has meant that the capitalisation of certain costs as intangible assets is no longer permitted (IAS No. 38). In accordance with IAS No. 38, adjustments have been made to the value of intangible assets relating to incorporation and listing costs, and Cairo Directory SpA start up costs.

As a result, the reconciliation of net equity at 1 October 2004 and at 31 March 2005, and the half yearly results at 31 March 2005, when restated in accordance with the IAS/IFRS international accounting standards, show the following:

- At 1 October 2004: Intangible assets fell by € 8 thousand and € 977 thousand respectively, due to the transfer/ write off of net residual value of incorporation and listing costs and Cairo Directory start up costs, with a corresponding debit to the "IAS/IFRS international accounting standards first time adoption reserve" of € 985 thousand,
- At 31 March 2005: A reduction in the amortisation of intangible assets of € 2 thousand, linked to the transfer/ write off of net residual value of incorporation and expansion costs, and an increase in start up costs relating to Cairo Directory SpA for € 2,462 thousand, plus an increase in capitalised incorporation and expansion costs of € 10 thousand. As a result, net equity at 31 March 2005 shows a decrease, corresponding to the reduction in value of intangible assets, of € 16 thousand and € 3,439 thousand respectively. This reflects the writing down to zero of the net residual value at that date of incorporation and expansion costs and intangible assets in progress relating to Directory start up costs.

Start up costs:

Start up costs are no longer amortised systematically, rather they are now valued in order to identify eventual losses in value.

As a result, the reconciliation of net equity at 1 October 2004 and at 31 March 2005, and the half yearly results at 31 March 2005, when restated in accordance with the IAS/IFRS international accounting standards, show the following:

- At 1 October 2004: There was no impact at this time as the Group decided to avail of the optional exemption allowed under IFRS No. 1, and not to apply IFRS No. 3 retrospectively, regarding business combinations, for operations which took place prior to the date of transition to IAS/IFRS international accounting standards. Furthermore, no adjustment to the value of the consolidation differences recorded using Italian accounting principles was deemed necessary by the test carried out to verify conditions for capitalisation.
- At 31 March 2005: A reduction in amortisation for this half year and an increase in intangible assets of € 300 thousand

Property, furniture and equipment

In relation to real estate, international accounting principles require that these are listed in a separate class of asset and not depreciated. Land, which has been built on, previously depreciated with the buildings on the site, must now be identified separately and the related cumulated depreciation must be cancelled.

As a result, the reconciliation of net equity at 1 October 2004 and at 31 March 2005, and the half yearly results at 31 March 2005, when restated in accordance with the IAS/IFRS international accounting standards, show the following:

- At 1 October 2004: An increase of € 62 thousand in property, furniture and equipment, reflecting the transfer/ write off of cumulated depreciation at that date on the part of the value of the asset attributable to the built-up land, with a corresponding debit to the net equity "IAS/IFRS international accounting standards first time adoption reserve"
- At 31 March 2005: A decrease of € 7 thousand in depreciation to property, furniture and equipment for the half year. As a result, at the same date, property, furniture and equipment increased by € 69 thousand.

Treasury shares:

The value of treasury shares is reclassified, reducing the share capital. Dealing in treasury shares brings to bear no economic effect, either income or expense, rather it constitutes a variation in consolidated net equity. The treasury share reserve, classified separately in the consolidated financial statements prepared in accordance with Italian accounting standards, is now reclassified in accordance with the IAS/IFRS international accounting standards under “Income from previous financial years”, from which it was derived.

As a result, the reconciliation of net equity at 1 October 2004 and at 31 March 2005, and the half yearly results at 31 March 2005, when restated in accordance with the IAS/IFRS international accounting standards, show the following:

- 1 October 2004: A decrease of € 765 thousand reflecting the reclassification of treasury shares with a reduction in the value of net equity and reclassification of the treasury share reserve to “Profit carried forward”.
- At 31 March 2005: An increase of € 728 thousand in net equity corresponding to the realised value of treasury shares sold during the year. A € 14 thousand decrease in finance income during the half year corresponded to the capital gains realised from the sale of the treasury shares. As a result, the value of treasury shares at that date was € 51 thousand, corresponding to their net residual value.

<u>Stock option:</u>

Under Italian accounting standards, relating to share based payments, no expense was listed to the income statement. Rather, these were listed in the notes to the financial statements for information. With the application of the IAS/IFRS international accounting standards, stock options are treated as follows:

3 for equity settled stock option plans, the fair value of the option, set at the moment of its assignment, is listed among personnel costs while the stock option plan matures, with a corresponding entry to the relative net equity reserve;

At 31 March 2005: An increase in operating costs for the quarter of € 85 thousand, the result of the application of IFRS No. 2 to the equity settled stock option plan which a subsidiary company established in relation to its shares and one of its managers, during October 2004

<u>Pre-publication and launch costs relating to new publications</u>

In accordance with IAS/IFRS international accounting standards, these costs must be expensed to the income statement for the financial year in which they are incurred.

As a result, the reconciliation of net equity at 1 October 2004 and at 31 March 2005, and the half yearly results at 31 March 2005, when restated in accordance with the IAS/IFRS international accounting standards, show the following:

- 1 October 2004: A reduction in prepaid expenses of € 1,613 thousand due to the transfer/ write off of pre-publication and launch costs relating to "Settimanale Di Più", deferred at the end of year 30 September 2005, unlike the treatment required under IFRS principles with a corresponding debit to the net equity "IAS/IFRS international accounting standards first time adoption reserve"
- At 31 March 2005: An increase of € 1,917 thousand in operating expenses, reflecting the combined effect of the debit of costs relating to "Di Più TV", deferred in accordance with Italian accounting standards to subsequent years (€ 3,530 thousand) and the credit of costs subject to the adjustment mentioned previously (€ 1,613 thousand). As a result, deferrals at 31 March 2005 are reduced by € 3,530 thousand.

Advertising sales

As part of the contract established with La 7 Televisioni SpA, a payment was made to that company for the 2003-2005 period which was not allocated across the duration of the contract. While the consolidated financial statements prepared in accordance with Italian accounting standards reflected the annual cost derived from this cost, on the basis of the amounts defined annually by the contract, in accordance with the IAS/IFRS international accounting standards the sum must be allocated evenly across the relevant years, independently of the methods allowed for in the contract.

As a result, the reconciliation of net equity at 1 October 2004 and at 31 March 2005, and the half yearly results at 31 March 2005, when restated in accordance with the IAS/IFRS international accounting standards, show the following:

- 1 October 2004: An increase in trade payables of € 3,687 thousand, in recognition of the part of the cost of advertising sales relating to the first two years of the contract, determined when the sum is allocated evenly across the three years of the contract's duration.
- 31 March 2005: A decrease in operating expenses for the quarter of € 1,532 thousand and, as a result, an increase in trade payables at that date of € 2,155 thousand.

Of note, in view of the reconciliation of the net equity and the financial results at 31 December 2004 , prepared in accordance with Italian accounting standards, and these same results restated in accordance with the IAS/IFRS international accounting standards shown in the appendix "Transition to the IAS/IFRS international accounting standards" to the financial statements at 31

December 2005, the reconciliation of the net equity and the financial results at 31 March 2005 can be analysed as follows:

	01 January 2005	**Distribution of dividends**	**Other net equity movements**	**Group financial results**	**31 March 2005**
Equity calculated using Italian accounting standards	**132,891**	**(12,531)**	**0**	**1,500**	**121,860**
IAS/IFRS Variations:					
Transfer/ Write off of incorporation and listing costs	(6)	0	0	(10)	(16)
- Transfer/ Write off of start up costs relating to Cairo Directory	(2,216)	0	0	(1,223)	(3,439)
- Transfer/ Write off of amortisation relating to consolidation difference	150	0	0	150	300
- Transfer/ Write off of accumulated amortisation relating to real estate which has been built upon	66	0	0	4	69
- Reclassification of treasury shares	(55)	0	4	0	(51)
- Benefits to management	0	0	51	(51)	0
- Transfer/ Write off of prepublication and launch costs relating to new publications	(807)	0	0	(2,724)	(3,530)
- Different treatment of advertising income	(2,870)	0	0	715	(2,155)
Related fiscal effect	2,277	0	0	0	2,277
Total IAS/IFRS variations	(3,461)	0	55	(3,139)	(6,545)
Minority interest on IAS/IFRS variations	758	0	0	489	1,247
Group net equity calculated in accordance with IAS/IFRS international accounting standards	**130,188**	**(12,531)**	**55**	**(1,150)**	**116,562**

Reconciliation of income statement at 31 March 2005

Half-yearly results at 31 March 2005 (6 months)				
	Italian accounting standards	**IAS/IFRS adjustments**	**IAS/IFRS reclassifications**	**IAS/IFRS international accounting standards**
Sales	96,976	0	0	96,976
Advertising agency discounts	(9,919)	0	0	(9,919)
Inventory movements	(125)	0	0	(125)
Other operating revenues	2,644	0	(1,511)	1,133
Operating revenues	**89,576**	**0**	**(1,511)**	**88,065**
Cost of sales	(75,833)	(1,634)	(391)	(77,858)
Personnel costs	(6,464)	(1,308)	0	(7,772)
Gross operating profit (EBITDA)	**7,279**	**(2,942)**	**(1,902)**	**2,435**
Depreciation and provision charges	(3,214)	309	1,250	(1,655)
Operating profit (EBIT)	**4,065**	**(2,633)**	**(652)**	**780**
Net finance income	1,069	(14)	0	1,055
Profit from ordinary activities	**5,134**	**(2,647)**	**(652)**	**1,835**
Exceptional expenses	(652)		(652)	0
Minority interest	167	985	0	1,152
Profit / (Loss) before tax	**4,649**	**(1,662)**	**0**	**2,987**

Details of the financial statements relating to the effect of the adoption of IAS/IFRS international accounting standards on the income statement for the half-year ended 31 March 2005

<u>*Other operating revenues*</u>

Reclassifications: These refer to the reclassification of revenues from the rebilling of operating expenses and contributions to the trade account against operating expenses.

<u>*Operating expenses*</u>

Reclassifications	30 September 2005
Reclassification of income relating to rebilling of costs and contributions to the trading account	1,511
Reclassification of costs relating to La 7 entrance fee	(1,250)
Reclassification of exceptional expenses	(652)
Total reclassifications	**(391)**

These comprise:

- the reclassification of the amortisation of costs relating to the once off entrance fee paid in January 2003 to La 7 Televisioni SpA (€ 1,250 thousand) which had been recorded under amortisation
- the reclassification of other income of € 1,511 thousand
- the reclassification of arbitration and legal costs incurred in relation to the dispute with Sky Italia Srl (€ 652 thousand at 31 March 2005)

Adjustments	**30 September 2005**
Transfer / write off of Cairo Directory start up costs	(1,239)
Pre-publication and launch costs	(1,917)
Advertising sales	1,532
Transfer / write off of capitalisation of incorporation and listing costs	(10)
Total adjustments	**(1,634)**

These have been discussed in the notes to the reconciliation of the financial results at 31 March 2005 and comprise:

- the reclassification of Cairo Directory start up costs, equivalent to € 2,462 thousand, comprising operating costs of € 1,239 thousand and personnel costs of € 1,223 thousand.
- the reclassification of the debit of prepublication and launch costs relating to “Di Più TV” (€ 3,530 thousand) incurred during the previous year and the credit of costs (€ 1,613 thousand) incurred during the previous year in relation to “Settimanale Di Più” which had been deferred under Italian accounting standards.
- the amortisation of costs relating to the once off entrance fee paid in January 2003 to La 7 Televisioni SpA (€ 625 thousand) which had been listed under amortisation
- the reclassification of other income €of € 1,161 thousand
- the reclassification of arbitration and legal costs incurred in relation to the dispute with Sky Italia Srl (€ 652 thousand at 31 March 2005)

Personnel costs

Adjustments: The cost of stock option plans for management (€ 85 thousand) and the relative adjustment to Cairo Directory start up costs (€ 1,223 thousand of which were personnel costs)

Depreciation, provisions and writedowns

Reclassifications: These refer to the reclassification (€ 1,250 thousand) of a once off amount paid during January 2003 to La 7 Televisioni SpA, which was recorded under amortisation in accordance with Italian accounting standards.

Adjustments: Listing of the transfer / write off of amortisation relating to start ups (€ 300 thousand) and land which has been built upon (€ 7 thousand) and incorporation and expansion costs (€ 2 thousand).

Net finance income

Adjustments: Transfer / write off of € 14 thousand in capital gains realised from the sale of treasury shares.

Minority interest

Adjustments: This refers to the share held by minority shareholders, in relation to the IAS/IFRS international accounting standards adjustments

Details of the financial statements relating to the effect of the adoption of IAS/IFRS international accounting standards on the income statement for the 2nd quarter ended 31 March 2005.

	2nd quarter ended 31 March 2005 (3 months)			
	Italian accounting standards	**IAS/IFRS adjustments**	**IAS/IFRS reclassifications**	**IAS/IFRS international accounting standards**
Sales	46,664	0	0	46,664
Advertising agency discounts	(4,698)	0	0	(4,698)
Inventory movements	(139)	0	0	(139)
Other operating revenues	1,650	0)	(1,161)	489
Operating revenues	**43,477**	**0**	**(1,161)**	**42,316**
Cost of sales	(37,421)	(2,634)	(116)	(40,171)
Personnel costs	(2,870)	(659)	0	(3,529)
Gross operating profit (EBITDA)	**3,186**	**(3,293)**	**(1,277)**	**(1,384)**
Depreciation and provision charges	(1,633)	153	625	(855)
Operating profit (EBIT)	**1,553**	**(3,140)**	**(652)**	**(2,239)**
Net finance income	487	0	0	487
Profit from ordinary activities	**2,040**	**(3,140)**	**(652)**	**(1,752)**
Net exceptional expenses	(652)	0	652	0
Minority interest	112	489	0	601
Profit before tax	**1,500**	**(2,651)**	**0**	**(1,151)**

Details of the financial statements relating to the effect of the adoption of IAS/IFRS international accounting standards on the income statement for the 2nd quarter ended 31 March 2005.

<u>*Other income*</u>

Reclassifications: These refer to the reclassification of income relating to the rebilling of operating expenses and contributions to the trading account against operating expenses.

<u>*Operating expenses*</u>

Reclassifications	30 September 2005
Reclassification of income relating to rebilling of costs and contributions to the trading account	1,161
Reclassification of costs relating to La 7 entrance fee	(625)
Reclassification of exceptional expenses	(652)
Total reclassifications	**(116)**

These comprise:

- the reclassification of the amortisation of costs relating to the once off entrance fee paid in January 2003 to La 7 Televisioni SpA (€ 625 thousand) which had been recorded under amortisation
- the reclassification of other income €of € 1,161 thousand
- the reclassification of arbitration and legal costs incurred in relation to the dispute with Sky Italia Srl (€ 652 thousand at 31 March 2005)

Adjustments	**30/09/2005**
Transfer / write off of Cairo Directory start up costs	(615)
Pre-publication and launch costs	(2,724)
Advertising sales	716
Transfer / write off of capitalisation of incorporation and listing costs	(10)
Total adjustments	**2,626**

These adjustments have been discussed in detail in the notes referring to the reconciliation of the half-yearly results at 31 March 2005. The adjustment relating to Cairo Directory start up costs, equivalent to € 1,223 thousand, comprises operating expenses of € 615 thousand and personnel costs of € 608 thousand. Of note, the adjustment relating to pre-publication and launch costs for "Di Più TV" (€ 3,530 thousand) and the credit of costs (€ 806 thousand) incurred during the previous year for "Settimanale Di Più", which had been deferred in accordance with Italian accounting standards.

Personnel costs

Adjustments: The cost of stock option plans for management (€ 51 thousand) and the relative adjustment to Cairo Directory start up costs (€ 608 thousand of which were personnel costs)

Depreciation, provisions and writedowns

Reclassifications: These refer to the reclassification (€ 625 thousand) of a once off amount paid during January 2003 to La 7 Televisioni SpA, which was recorded under amortisation in accordance with Italian accounting standards.

Adjustments: Listing of the transfer / write off of amortisation relating to start ups (€ 150 thousand) and land which has been built upon (€ 3 thousand).

Minority Interest

Adjustments: This refers to the share held by minority shareholders, in relation to the IAS/IFRS international accounting standards adjustments

Chairman of the Board of Directors

Urbano R. Cairo