CAIRO COMMUNICATION

Annual Financial Report at 31 December 2012

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

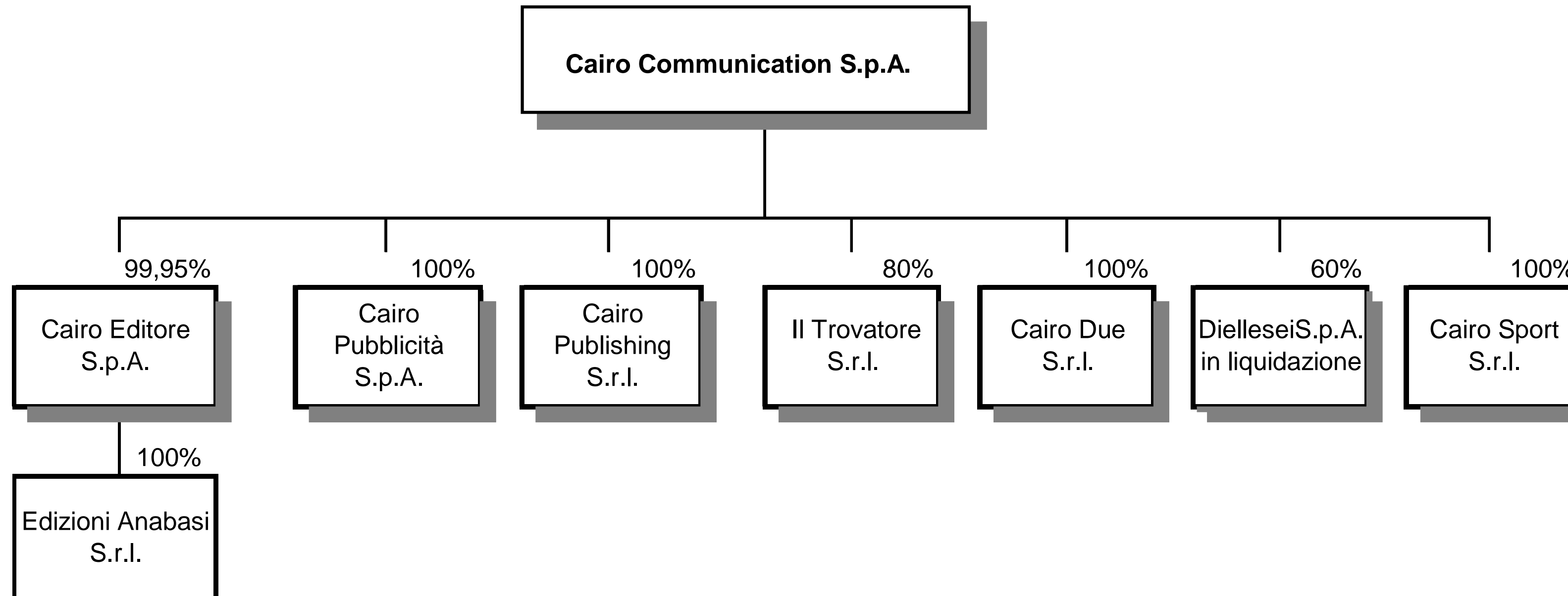
Marco Moroni	Chairman
Marco Giuliani	Standing auditor
Maria Pia Maspes	Standing auditor
Mario Danti	Alternate auditor
Enrico Tamborini	Alternate auditor

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 2012



DIRECTORS' REPORT

Separate and consolidated financial statements at 31 December 2012

Dear Shareholders,

the separate and consolidated financial statements as at and for the year ended 31 December 2012, submitted for your approval, show, respectively, a profit of Euro 21,062 thousand and a profit attributable to the owners of the parent of Euro 18,663 thousand.

In 2012, the Cairo Communication Group continued to operate as a publisher of magazines and books (Cairo Editore/Editoriale Giorgio Mondadori and Cairo Publishing), as a multimedia advertising broker (Cairo Pubblicità) for the sale of advertising space on TV, in print media, on the Internet and in stadiums, and as operator of Internet sites (Il Trovatore).

Starting from the second half of 2011, the general economic and financial climate has been marked by uncertainty in the short to medium term. Its effects were still felt in 2012. More in detail, the second part of the year witnessed deterioration in the economic context in general and specifically in the Group's relevant markets - publishing and advertising. This resulted in greater complexity in the competitive picture. To date, there remains uncertainty over the period required for a return to normal market conditions.

According to AC Nielsen figures, in 2012 advertising investments in Italy amounted to approximately Euro 7.4 billion, down 14.3% versus the previous year. Nielsen's analysis by media shows that in 2012:

- the magazine advertising market dropped by 18.4% versus 2011, when it had slid by 3.7% versus 2010; specifically, in 4Q12 it lost 23.9% versus 4Q11,
- the TV advertising market fell by 15.3% versus 2011, when it had decreased by 3.1% versus 2010, marked by a highly negative trend in the second half of the year, particularly in the last quarter (-22.1%, *AC Nielsen*).

Uncertainty in the short to medium-term economic landscape was one of the factors that slowed the pace of magazine sales in the publishing segment.

Despite this backdrop, in 2012 the Cairo Communication Group:

- returned, with the launch of “Settimanale Nuovo” (January) and the women’s weekly “F” (June), to the strategy of development, through the planning and launch of new publications, which had marked its strong growth in the 2003-2006 four-year period, creating two successful titles that have received a warm response from the public and achieved remarkable sales figures,
- continued to support the high quality and circulation levels of its portfolio of publications also by increasing investments in communication,
- managed to limit the drop in advertising revenue, in particular TV advertising revenue, versus the general market trend, and
- achieved revenue basically in line with 2011 and highly positive results despite the considerable costs incurred for the two new titles (Euro 4.4 million).

“Settimanale Nuovo” led by Riccardo Signoretti, debuted on newsstands on 19 January 2012 and the first 50 issues (with the first 2 issues at a launch price of 50 cents) reported average sales of approximately 281 thousand copies.

“F”, led by Marisa Deimichei, landed on newsstands on 6 June 2012, and the first 30 issues (with the first 2 issues at a launch price of 50 cents) reported average sales of approximately 180 thousand copies.

The overall costs for both launches - supported by an advertising campaign also at newsstands - and for the study phase of the women's weekly, amounted to approximately Euro 4.4 million. Overall, starting from autumn 2011, about 32 journalists and other figures were hired by the staffs of “Settimanale Nuovo” and “F”.

In 2012, advertising sales on La7 and La7d, approximately Euro 173.9 million, were basically in line (-1.8%) with 2011, when they amounted to Euro 177.1 million. In 2012, the average all-day share of La7 was 3.45% (3.82% in 2011), while La7d rose to 0.41% (0.29% in 2011). Specifically, advertising sales on La7 (Euro 161.9 million) dropped by 3.4% versus 2011, outstripping the general TV advertising market by approximately 12 percentage points (-15.3%), confirming the highly positive results achieved in the past four years. In fact, taking the 2009-2012 four-year period into consideration, figures show that, against an overall drop of -19% suffered by the TV advertising market, advertising sales on La7 increased by approximately 43.8%, when in the same period, the channel's average share moved up from 3.08% in 2008 to 3.45% in 2012 (+12%).

In 2012, the Group achieved consolidated gross operating profit (EBITDA) of approximately Euro 31.1 million (-21.4%) and consolidated operating profit (EBIT) of approximately Euro 28.3 million (-21.2%). Profit attributable to the owners of the parent came to approximately Euro 18.7 million and was impacted by the negative effect (Euro 1.5 million) of the measurement of the investment in the associate Dmail Group S.p.A. using the equity method.

Looking at each business segment, in 2012:

- for **publishing**, gross operating profit (EBITDA) and operating profit (EBIT) in 2012 amounted to Euro 15.8 million and Euro 14.4 million (Euro 19.6 million and Euro 18.2 million respectively in the same period last year), as a result of the costs incurred for supporting the launch of the two weeklies (Euro 4.4 million) and of increased investments in communication and promotion to support the publications versus the same period last year (Euro 0.6 million);
- for **advertising**, gross operating profit (EBITDA) and operating profit (EBIT) amounted to Euro 15.3 million and Euro 13.9 million (Euro 19.9 million and Euro 17.7 million respectively in the same period last year).

After year-end 2012, Cairo Communication S.p.A. signed an agreement with Telecom Italia Media for the acquisition of the entire share capital of La7 S.r.l., excluding the investment held by La7 S.r.l. in MTV Italia S.r.l. The completion of the transaction is currently subject to the authorizations pursuant to the current legislation.

The deal will allow Cairo Communication to enter the TV publishing field, with the upstream integration of its brokerage business for the sale of advertising space, and will also enable it to diversify its publishing activities which are currently focused on magazines.

PERFORMANCE

Cairo Communication Group – Consolidated figures

The main **consolidated income statement figures** of 2012 can be compared as follows with those of 2011:

(€ thousands)	2012	2011
Gross operating revenue	309,150	316,635
Advertising agency discounts	(33,212)	(35,086)
Net operating revenue	**275,938**	**281,549**
Change in inventories	(38)	(124)
Other revenue and income	4,300	2,567
Total revenue	**280,200**	**283,992**
Production cost	(224,281)	(220,854)
Personnel expense	(24,856)	(23,630)
Gross operating profit (EBITDA)	**31,063**	**39,508**
Amortization, depreciation, provisions and impairment losses	(2,743)	(3,584)
Operating profit (EBIT)	**28,320**	**35,924**
Net financial income	1,746	1,327
Income (loss) on investments	(1,461)	(765)
Pre-tax profit	**28,605**	**36,486**
Income tax	(9,940)	(13,027)
Non-controlling interests	(1)	(3)
Profit from continuing operations attributable to the owners of the parent	**18,664**	**23,456**
Profit/(loss) from discontinued operations	(1)	(10)
Profit/(loss) from discontinued operations attributable to non-controlling interests	-	-
Profit/(loss) from discontinued operations attributable to the owners of the parent	**(1)**	**(10)**
Profit attributable to the owners of the parent	**18,663**	**23,446**

In 2012, consolidated gross revenue was approximately Euro 313.5 million (Euro 319.2 million in 2011), which comprises operating revenue of Euro 309.2 million and other revenue of Euro 4.3 million, basically in line (-1.8%) with 2011, thanks to revenue from the new weeklies "Settimanale Nuovo" (approximately Euro 13 million) and "F" (approximately Euro 7.4 million). Consolidated gross operating profit (EBITDA) and consolidated operating profit (EBIT) came to approximately Euro 31.1 million and Euro 28.3 million, down 21.4% and 21.2% respectively versus 2011 (Euro 39.5 million and Euro 35.9 million respectively), as a result also of costs incurred for supporting the launch of "Settimanale Nuovo" and "F" (Euro 4.4 million) and of increased investments in communication and promotion to support the publications versus last year (Euro 0.6 million).

Profit from current operations attributable to the owners of the parent came to approximately Euro 18.7 million (Euro 23.4 million in 2011).

Income (loss) on investments refers to the negative effects of the measurement of the investment in the associate Dmail Group S.p.A. using the equity method.

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

(€ thousands)	2012	2011
Consolidated statement of comprehensive income		
Profit attributable to the owners of the parent	18,663	23,446
Loss on measurement of available-for-sale financial assets	-	(8)
Total comprehensive income	**18,663**	**23,438**

The Group's performance can be read better by analyzing the 2012 results by **core business** (publishing, advertising and Il Trovatore) versus those of 2011:

2012 (€ thousands)	Publishing	Advertising	Trova-tore	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	(18,993)	(5,829)	(34)	-	-	(24,856)
Gross operating profit (EBITDA)	**15,786**	**15,278**	**(1)**	**-**	**-**	**31,063**
Amortization, depreciation, provisions and impairment losses	(1,355)	(1,403)	15	-	-	(2,743)
Operating profit (EBIT)	**14,431**	**13,875**	**14**	**-**	**-**	**28,320**
Net financial income	205	1,542	(1)	-	-	1,746
Income (loss) on investments	-	(1,461)				(1,461)
Pre-tax profit	**14,636**	**13,956**	**13**	**-**	**-**	**28,605**
Income tax	(4,749)	(5,185)	(6)	-	-	(9,940)
Non-controlling interests	-	-	(1)	-	-	(1)
Profit from continuing operations attributable to the owners of the parent	**9,887**	**8,771**	**6**	**-**	**-**	**18,664**
Loss from discontinued operations	-	-	-	(1)	-	(1)
Profit	**9,887**	**8,771**	**6**	**(1)**	**-**	**18,663**

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

Gross operating revenue in 2012, split up by core business (publishing, advertising and Il Trovatore), can be analyzed as follows versus the amounts of 2011:

Gross revenue (€ thousands)	**2012**				
	Publishing	**Advertising**	**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
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 and income	3,729	559	12	-	4,300
Total revenue	**113,229**	**231,434**	**355**	**(31,568)**	**313,450**

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

The main **consolidated statement of financial position figures** at 31 December 2012 can be compared with the situation at 31 December 2011:

(€ thousands)	31/12/2012	31/12/2011
Statement of financial position		
Property, plant and equipment	2,942	2,724
Intangible assets	9,107	9,282
Financial assets	79	1,540
Deferred tax assets	4,263	4,734
Net current assets	(10,906)	(3,170)
Total assets	**5,485**	**15,110**
Non-current borrowings and provisions	6,365	6,081
(Net financial assets)/Net debt	(61,234)	(54,701)
Equity attributable to the owners of the parent	60,350	63,727
Equity attributable to non-controlling interests	4	3
Total equity and liabilities	**5,485**	**15,110**

Mention must be made that:

- at their meeting on 26 April 2012, the shareholders approved the distribution of a dividend of 0.30 Euro per share, inclusive of tax, of which Euro 0.15 already distributed as an interim dividend under the resolution adopted by the meeting of the Board of Directors held on 30 November 2011. The balance of the dividend, amounting to Euro 0.15 per share for a total of Euro 11.7 million, was distributed with detachment date on 7 May 2012 and made payable on 10 May 2012.
- at its meeting on 13 November 2012, the Board of Directors approved the distribution of an interim dividend for the 2012 financial year of Euro 0.13 per share (inclusive of tax), for a

total of Euro 10.1 million, of which Euro 8.9 million had been distributed at 31 December 2012.

In 2012, as part of total of n. 450,779 treasury shares, or 0.575% of the share capital, subject to art. 2357-ter of the Italian Civil Code.

The consolidated **net financial assets** at 31 December 2012, compared with the situation at 31 December 2011, can be summarized as follows:

(€ thousands)	**31/12/2012**	**31/12/2011**	**Change**
Cash and cash equivalents	61,234	54,701	6,533
Current financial assets	-	-	
Total	**61,234**	**54,701**	**6,533**

To analyze the major financial indicators, the financial position at 31 December 2012 can be examined using a reclassified statement showing increasing liquidity/settlement:

(€ thousands)	31/12/2012	31/12/2011
Non-current assets		
Property, plant and equipment and intangible assets	12,049	12,007
Financial assets	79	1,540
Deferred tax assets	4,263	4,734
Total non-current assets	**16,391**	**18,281**
Current assets		
Inventories	3,857	3,389
Trade receivables (unavailable liquid funds)	90,381	108,086
Other unavailable liquid funds	12,876	8,988
Total current operations assets	**107,114**	**120,463**
Available liquid funds	61,234	54,701
Total current assets	**168,348**	**175,164**
Invested capital	**184,739**	**193,445**
Equity	**60,354**	**63,730**
Consolidated liabilities		
Post-employment benefits and provisions for risks and charges	6,365	6,081
Non-current bank loans	-	-
Total consolidated liabilities	**6,365**	**6,081**
Current liabilities		
Current operating liabilities	118,020	123,633
Current bank loans	-	-
Total current liabilities	**118,020**	**123,633**
Financing capital	**184,739**	**193,445**
Profit	18,663	23,446
Operating profit (EBIT)	28,320	35,924
Sales	275,938	281,549

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

(€ thousands)	Description	31/12/2012	31/12/2011
Solvency indicators			
Current assets less current liabilities margin	Current assets-current liabilities	50,328	51,530
Current assets less current liabilities ratio	Current assets /current liabilities	1.43	1.42
Treasury margin	(Unavailable liquid funds + available liquid funds)-current liabilities	46,671	48,141
Current ratio	(Unavailable liquid funds + available liquid funds)/current liabilities and	1.39	1.39
Non-current asset financing indicators			
Own funds less fixed assets margin	Own funds – non-current assets	43,963	45,449
Own funds less fixed assets ratio	Equity /non-current assets	3.7	3.5
Own funds plus non-current liabilities less non-current assets margin	(Own funds+ non-current liabilities) – non-current assets	50,328	51,530
Own funds plus non-current liabilities less non-current assets ratio	(Own funds+ non-current liabilities)/ non-current assets	4.1	3.8
Financing structure indicators			
Total debt ratio	(non-current + current liab.)/Own funds	2.1	2.0
Financing debt ratio	Third-party funds/Own funds	0.0	0.0
Current operating assets - current operating liabilities		(10,906)	(3,171)
Profitability indicators			
ROE	Profit /Own funds	30.9%	36.8%
ROE current operations	Profit curr. op./Own funds	30.9%	36.8%
ROI	Operating profit / (Inv. op. capital – op. liabilities)	42.4%	51.5%
ROI current operations	Operating profit current operations/ (Inv. op. capital – op. liabilities)	42.4%	51.5%
Other indicators			
Receivables turnover		100	117

Solvency indicators (liquidity) represent the ability of the company to maintain short-term financial equilibrium, to meet short-term outflows (current liabilities) with existing cash (available liquid funds) and short-term inflows (unavailable liquid funds). Specifically, available

and unavailable liquid funds fully cover current liabilities. The statement is used to analyze overall dynamics and origins of cash movements.

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

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

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

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

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

Weeklies	**Dipiu'**	**Diva & donna**	**Dipiu' TV**	**Dipiu' TV Cucina**	**Nuovo**	**F**	**TV Mia**
ADS December 2012	543,389	174,439	384,374	350,990	207,254	116,357	161,264
December 2011 company figure	643,466	164,875	439,645	400,000	N/A	N/A	168,764
	-15.6%	*5.8%*	*-12.6%*	*-12.3%*	N/A	N/A	*.4.4%*

Monthlies	**For Men Magazine**	**Natural Style**	**Bell'Italia**	**Bell'Europa**	**In Viaggio**	**Airone**	**Gardenia**
ADS December 2012	73,102	44,468	51,837	22,100	20,653	63,245	63,862
December 2011 company figure	61,078	47,916	41,438	24,876	24,364	67,414	59,374
	19.7%	*-7.2%*	*25.1%*	*-11.1%*	*-15.2%*	*-6.2%*	*7.6%*

These figures show how circulation managed to hold ground, despite the tough market in 2012.

Cairo Communication S.p.A. – Parent performance

The main Parent **income statement figures** for 2012 can be compared as follows versus those of 2011:

(€ thousands)	**2012**	**2011**
Gross operating revenue	137,099	140,487
Advertising agency discounts	-	-
Net operating revenue	**137,099**	**140,487**
Other revenue and income	133	261
Total revenue	**137,232**	**140,748**
Production cost	(125,246)	(127,125)
Personnel expense	(2,750)	(2,773)
Gross operating profit (EBITDA)	**9,236**	**10,850**
Amortization, depreciation, provisions and impairment losses	(213)	(218)
Operating profit (EBIT)	**9,023**	**10,632**
Net financial income	1,284	952
Income (loss) on investments	14,241	11,674
Pre-tax profit	**24,548**	**23,258**
Income tax	(3,486)	(3,990)
Profit from continuing operations	**21,062**	**19,268**
Profit/(loss) from discontinued operations	-	(10)
Profit	**21,062**	**19,258**

In 2012 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 2012:

- gross operating revenue was approximately Euro 137.2 million (Euro 140.5 million in 2011);
- gross operating profit (EBITDA) of the parent was approximately Euro 9.2 million (Euro 10.8 million in 2011);
- operating profit (EBIT) was approximately Euro 9 million (Euro 10.6 million in 2011);
- profit was approximately Euro 21.1 million (Euro 19.3 million in 2011).

"Income on investment", amounting to Euro 14.5 million, mainly includes:

- dividends received from the subsidiaries Cairo Pubblicità, amounting to Euro 4.7 million (Euro 2.3 million in 2011) and from Cairo Editore, amounting to Euro 11 million (Euro 10.2 million in 2011);
- the impairment loss from the measurement of the investment in the associate Dmail Group S.p.A. (Euro 1.1 million).

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

(€ thousands)	31/12/2012	31/12/2011
Statement of comprehensive income of the Parent		
Profit	21,062	19,258
Loss on measurement of available-for-sale financial assets	-	(8)
Total statement of comprehensive income	**21,062**	**19,250**

The main **statement of financial position figures** of Cairo Communication S.p.A. at 31 December 2012 can be compared with the situation at 31 December 2011:

(€ thousands)	31/12/2012	31/12/2011
Statement of financial position		
Property, plant and equipment	520	376
Intangible assets	159	124
Financial assets	14,032	15,169
Other non-current assets	399	399
Net current assets	(160)	7,709
Total assets	**14,950**	**23,777**
Non-current borrowings and provisions	1,008	910
(Net financial assets)/Net debt	(45,426)	(37,476)
Equity	59,368	60,343
Total equity and liabilities	**14,950**	**23,777**

As mentioned in the notes to the consolidated statement of financial position, at their meeting of 26 April 2012 the shareholders approved the distribution of the 2011 dividend, amounting to Euro 0.15 per share (for a total of Euro 11.7 million), and the meeting of the Board of Directors of 13 November 2012 approved the distribution of an interim dividend for the 2012 financial year of Euro 0.13 per share (for a total of Euro 10.1 million), of which Euro 8.9 million had been distributed at 31 December 2012.

The **net financial assets** of the Parent at 31 December 2012, compared with the situation at 31 December 2011, is summarized as follows:

(€ thousands)	31/12/2012	31/12/2011	Change
Cash and cash equivalents	45,426	37,476	7,950
Current financial assets	-	-	-
Total	**45,426**	**37,476**	**7,950**

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.	**59,366**	**21,061**
Elimination of the carrying amount of consolidated equity investments:		
Difference between carrying amount of investments and their equity value	13,217	
Share in subsidiaries' profit net of investment impairment losses		13,101
Allocation of excess consideration paid:		
Goodwill	7,221	
Elimination of intra-group profits net of income tax	(19,454)	180
Elimination of intra-group dividends		(15,679)
Consolidated financial statements of Cairo Communication	**60,350**	**18,663**

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

PUBLISHING

CAIRO EDITORE - CAIRO PUBLISHING

The results achieved by **Publishing** in 2012 can be analyzed as follows:

Publishing (€ thousands)	**2012**	**2011**
Gross operating revenue	109,500	100,181
Advertising agency discounts	-	-
Net operating revenue	**109,500**	**100,181**
Change in inventories	3,729	1,872
Other income	(38)	(124)
Total revenue	**113,191**	**101,929**
Production cost	(78,412)	(65,571)
Personnel expense	(18,993)	(16,746)
Gross operating profit (EBITDA)	**15,786**	**19,612**
Amortization, depreciation, provisions and impairment losses	(1,355)	(1,416)
Operating profit (EBIT)	**14,431**	**18,196**
Net financial income	-	-
Income (loss) on investments	205	177
Pre-tax profit	**14,636**	**18,373**
Income tax	(4,749)	(6,451)
Non-controlling interests	-	-
Profit from continuing operations attributable to the owners of the parent	**9,887**	**11,922**
Profit/ (loss) from discontinued operations	-	-
Profit	**9,887**	**11,922**

As mentioned earlier, in 2012 Cairo Editore returned, with the launch of “Settimanale Nuovo” on 19 January and of the women's weekly “F” on 6 June, to the strategy of development through the study, planning and launch of new publications, which had marked its strong growth in the 2003-2006 four-year period.

“Settimanale Nuovo”, led by Riccardo Signoretti, with the first 50 issues (the first 2 issues at a launch price of 50 cents), reported average sales of approximately 281 thousand copies, and in 12 months generated circulation revenue of Euro 10.1 million and advertising revenue at Group level of Euro 2.9 million.

“F”, led by Marisa Deimichei, landed on newsstands on 6 June 2012, and the first 30 issues (with the first 2 issues at a launch price of 50 cents) reported average sales of approximately 180 thousand copies and, starting from June, generated circulation revenue of Euro 3.6 million and advertising revenue at Group level of Euro 3.8 million.

Thanks mainly to the new publications, circulation revenue increased while advertising revenue in the Group’s publishing segment managed to limit the drop over the period.

Looking at revenue, in 2012:

- sales revenue from Group publications, amounting to Euro 75.6 million, increased by 13.2% versus 2011 (Euro 66.8 million),

- Group gross advertising revenue, which reached Euro 35.2 million, thanks to "Settimanale Nuovo " and "F", limited the drop versus the 2011 figure to -12.1% (*AC Nielsen* -18.4% the magazine advertising market in 2012 versus 2011).

In 2012, gross operating profit (EBITDA) and operating profit (EBIT) in the publishing segment amounted to Euro 15.8 million and Euro 14.4 million respectively (Euro 19.6 million and Euro 18.2 million respectively in 2011), negatively impacted by the costs incurred to support the launch of "Settimanale Nuovo" and "F" (Euro 4.4 million) and by increased investments in communication and promotion to support the publications versus the same period last year (Euro 0.6 million). "Other revenue and income" in the publishing segment includes the acknowledgement of a "print subsidy" of Euro 0.9 million.

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

"Settimanale DIPIU", Italy's second bestselling magazine, with an average ADS circulation of 543,389 copies, "DIPIU' TV" (average ADS circulation of 384,374 copies), "Diva e Donna" (average ADS circulation of 174,439 copies), "TVMia" (average ADS circulation of 161,264 copies) and "Settimanale DIPIU' e DIPIU'TV Cucina" (average ADS circulation of 350,990 copies) confirmed the outstanding sales results achieved. Taking "Settimanale Nuovo" (average ADS circulation of 207,254 copies) and "F" (average ADS circulation of 116,357 copies) also into account, average sales of the Group's weeklies reached almost 2 million copies in December.

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, dropping as much as 20% over the last year; the Group has opted to focus on the quality of its publications; in 2012, gross advertising revenue generated by the Group's publications accounted for 30% - 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 70% 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'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 will continue to pursue opportunities to optimize production, publishing and distribution costs, and expects to achieve cost savings in excess of Euro 6 million versus 2012, also considering the launch costs incurred in 2012 for the two weeklies, achieved mainly through:

- the negotiation of paper costs and costs for external printing and binding work, also leveraging on the opportunities offered by technology,
- optimization of bordereau costs,
- reduction in promotional costs mainly related in 2012 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 at 31 December 2012 of subsidiaries.

ADVERTISING

In 2012, the Cairo Communication Group continued to operate as an advertising broker with the 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" and "F"), the Editoriale Giorgio Mondadori division ("Bell'Italia", "Bell'Europa", "In Viaggio", "Airone", "Gardenia", "Arte" and "Antiquariato") and for Editoriale Genesis ("Prima Comunicazione" and "Uomini e Comunicazione"), and for the sale of advertising space on TV for third parties TIMedia (La7 and La7d), EDB Media (Sportitalia, Sportitalia 2 and Sportitalia 24) and Turner Broadcasting

(Cartoon Network, Boomerang, and CNN), on the Internet mainly for TIMedia (La7.it and La7.tv) – this contract expired on 31 December 2012 – and Turner Broadcasting (Cartoon Network.it, Cnn.com), and for the sale of stadium signage and space at the "Olimpico" stadium in Turin for Torino FC.

The results achieved by **Advertising** in 2012 can be analyzed as follows:

Advertising (€ thousands)	2012	2011
Gross operating revenue	230,875	246,778
Advertising agency discounts	(33,212)	(35,086)
Net operating revenue	**197,663**	**211,692**
Other income	559	695
Change in inventories	-	-
Total revenue	**198,222**	**212,387**
Production cost	(177,115)	(185,665)
Personal expense	(5,829)	(6,852)
Gross operating profit (EBITDA)	**15,278**	**19,870**
Amortization, depreciation, provisions and impairment losses	(1,403)	(2,170)
Operating profit (EBIT)	**13,875**	**17,700**
Income (loss) on investments	(1,461)	1,151
Net financial income	1,542	(765)
Pre-tax profit	**13,956**	**18,086**
Income tax	(5,185)	(6,554)
Non-controlling interests	-	-
Profit from continuing operations	**8,771**	**11,532**
Profit (loss) from discontinued operations	-	-
Profit attributable to the owners of the parent	**8,771**	**11,532**

In 2012, in the advertising segment, advertising sales came to a total of Euro 230.8 million, dropping by 6.4% versus 2011 (Euro 246.8 million).

In 2012, gross operating profit (EBITDA) and operating profit (EBIT) were respectively Euro 15.3 million and Euro 13.9 million (respectively Euro 19.9 million and Euro 17.7 million in 2011).

Television

In 2012, TV advertising revenue (which comprises La7, La7d, Sportitalia channels and theme channels Cartoon Network, Boomerang, and CNN), totaled Euro 190.6 million, falling by 5.5% versus Euro 201.8 million in 2011 (*AC Nielsen* -15.3% the TV advertising market in 2012 versus 2011).

Advertising revenue on La7 and La7d, amounting to approximately Euro 173.9 million, was basically in line (-1.8%) with 2011, when it amounted to Euro 177.1 million. In 2012, the all-day average share of La7 was 3.45% (3.82% in 2011), while La7d increased to 0.41% (0.29% in 2011).

Advertising revenue on La7 (Euro 161.9 million) dropped by -3.4% versus 2011, outstripping the general TV advertising market by approximately 12 percentage points (-15.3%), confirming the highly positive results achieved over the past four years. In fact, taking the 2009-2012 four-year period into consideration, figures show that, against an overall drop of -19% suffered by the TV advertising market, advertising revenue on La7 grew instead by approximately 43.8%, from Euro 112.6 million in 2008 to Euro 161.9 million in 2012, when in the same period the average share of the channel had increased from 3.08% in 2008 to 3.45% in 2012 (+12%).

As mentioned earlier, after year-end 2012, Cairo Communication S.p.A. signed an agreement with Telecom Italia Media for the acquisition of the entire share capital of La7 S.r.l., excluding the investment held by La7 S.r.l. in MTV Italia S.r.l. The finalization of the transaction is currently subject to the authorizations pursuant to the current legislation.

The deal will allow Cairo Communication to enter the TV publishing field, with the upstream integration of its brokerage business for the sale of advertising space.

Print media

In 2012, Group advertising revenue, amounting to Euro 35.2 million, thanks to "Settimanale Nuovo" and "F", managed to limit the drop to 12.1% versus the result of 2011 (*AC Nielsen* -18.4% the magazine advertising market in 2012 versus 2011).

IL TROVATORE

In 2012 Il Trovatore continued operations, providing technological services mainly to Group companies, as well as managing its search engine.

Alternative performance indicators

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

The alternative indicators are:

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

+/- Net finance income

+/- Share in associates

EBIT- Operating profit

+ Amortization & depreciation

+ Bad debt impairment losses

+ Provisions for risks

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

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

Transactions with parents, subsidiaries and associates

Transactions in 2012 with related parties, including with Group companies, were not considered to be atypical or unusual, and were part of the ordinary activities of Group companies. These transactions were carried out on market terms, taking account of the goods and services provided.

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

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

Risks associated with the general economic climate

The financial position of the Cairo Communication Group may be influenced by various factors within the macro-economic environment, such as the increase or decrease of GNP, the level of

consumer and corporate confidence, the advertising expenditure/GDP ratio, interest rate trends and cost of raw materials.

Starting from the second half of 2011, the general economic and financial climate has been marked by uncertainty in the short to medium term. Its effects were still felt in 2012. More in detail, the second part of the year witnessed deterioration in the economic context in general and specifically in the Group's relevant markets - publishing and advertising. This resulted in greater complexity in the competitive picture. 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 2012, a series of measures to increase efficiency and effectiveness of the production, publishing and distribution processes, and will continue in 2013 to benefit from the high levels of efficiency achieved.

<u>Risks associated with advertising and publishing market trends</u>

In 2012, deterioration of the short and medium-term economic uncertainty – starting especially from autumn – continued to impact negatively on the advertising market, which is continuing in the first months of 2013 to follow the same negative pattern it had at the end of 2012.

According to AC Nielsen figures, in 2012 advertising investments in Italy amounted to approximately Euro 7.4 billion, down 14.3% versus 2011 (in particular -18.4% the magazine advertising market and -15.3% the TV advertising market versus 2011).

With approximately Euro 230.9 million in gross advertising revenue, the Cairo Communication Group holds about 3.1% of the overall advertising market (2.9% in 2011). Specifically, the Group holds approximately 4.9% of the TV advertising market (4.4% in 2011) and approximately 5.6% of the magazine advertising market (5.2% in 2011). This market share, which increased in 2012, 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 under concession, quality and distribution that provide significant competitive edge.

The tough economic environment has slowed the pace of the sale of dailies and magazines. Against this challenging backdrop, in 2012 sales revenue from Group publications, amounting to Euro 75.6 million, increased by 13.2% versus 2011 (Euro 66.8 million), thanks to the new

weeklies “Settimanale Nuovo” and F”, which generated sales revenue of Euro 10.1 million and Euro 3.6 million respectively.

Advertising

The Cairo Communication Group is significantly exposed to advertising sales performance, which has progressively decreased over time as a result of significant developments in the publishing business. Advertising sales from current operations today represent around 74% (around 77% in 2011) of total Group revenue.

Considering the Group’s publishing business alone, advertising revenue in 2012 accounted for 30% - much lower than the revenue breakdown of other major publishing groups - while the remaining 70% was generated by distribution and subscription revenue, demonstrating the great publishing strength of advertising products.

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

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

LA7 presents an excellent audience profile, particularly appealing for advertising.

Regarding Group titles, the excellent distribution volumes, in both absolute terms and considering competition, which enabled the Group to become the major publisher of weeklies by copies sold on newsstands, make the advertising pages appealing in terms of advertising cost per copy sold (equal to the difference between the price of the advertising page and the copies sold) which are currently lower than those of the competition.

Distribution

Regarding distribution, the features of the products published by the Group as well as its strategy, are such as to build a significant competitive edge in the current climate of the publishing segment. In particular, owing to 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 incidence (less than 2% on total publishing revenue, including advertising) of revenue 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.

Risks associated with extraordinary transactions

As mentioned earlier, after year-end 2012, Cairo Communication S.p.A. signed an agreement with Telecom Italia Media for the acquisition of the entire share capital of La7 S.r.l., excluding the investment held by La7 S.r.l. in MTV Italia S.r.l., for a consideration of Euro 1 million. The completion of the transaction, which is currently subject to the authorizations pursuant to the current legislation, will allow Cairo Communication to enter the TV publishing field, with the upstream integration of its brokerage business for the sale of advertising space, and will also enable it to diversify its publishing activities which are currently focused on magazines.

The following summary table shows results contained in segment reporting on La7 TV activities in the 2012 annual financial report of Telecom Italia Media, which is available on the Borsa Italiana and Telecom Italia Media websites:

(€ thousands)	2011	2012
Gross operating revenue	139,267	123,581
Other revenue and income	25,393	3,183
Non-recurring	*20,500*	-
Total revenue	**164,660**	**126,764**
Production cost	(119,260)	(149,741)
Personal expense	(40,738)	(42,891)
Gross operating profit (EBITDA	**4,662**	**(65,868)**
Amortization, depreciation, provisions and impairment losses	(27,487)	(30,189)
Impairment of goodwill and other non-current assets	**-**	(63,655)
Capital gains (losses) from the realization of non-current assets	1	33
Operating profit (EBIT)	**(22,824)**	**(159,679)**
Impairment of goodwill and non-current assets	-	63,655
Non-recurring items	(20,500)	-
Normalized operating profit	**(43,324)**	**(96,024)**

Source: Segment reporting from the 2012 annual financial report of Telecom Italia Media S.p.A, showing pro forma data and assuming that the contribution of TV business activities runs from 1 January 2011. The annual financial reports of Telecom Italia Media are available on the Borsa Italiana and Telecom Italia Media websites.

In 2012, excluding the impairment of goodwill and non-current assets, La7 reported a pro forma operating loss (Ebit) of approximately Euro 96 million, deteriorating versus the pro forma comparative operating loss of approximately Euro 43 million in 2011, as a result mainly of the increase in programme schedule costs. The company's current financial situation calls for the implementation of a restructuring plan aimed at reorganizing and streamlining the corporate structure and at curbing costs, retaining the high quality levels of the schedule. Under the agreements, the seller undertakes to help implement this project. Under the main terms of the agreements in fact, Telecom Italia Media will undertake, at the date of execution, to achieve a positive net financial position of at least Euro 88 million and equity of at least Euro 138 million for La7.

To achieve this turnaround, the main guidelines will be based on:

- confirming the current editorial line and those programmes that represent the main strengths of the channel,
- curbing costs, focusing in particular on “unproductive” cost items and on recovering efficiency,
- targeting action on the programme schedule, with new programmes to strengthen various timeslots, afternoon timeslots in particular, focusing on a younger female audience,
- enhancing the high-quality target of the La7 audience, to maintain and develop the high level of advertising revenue against the general market backdrop.

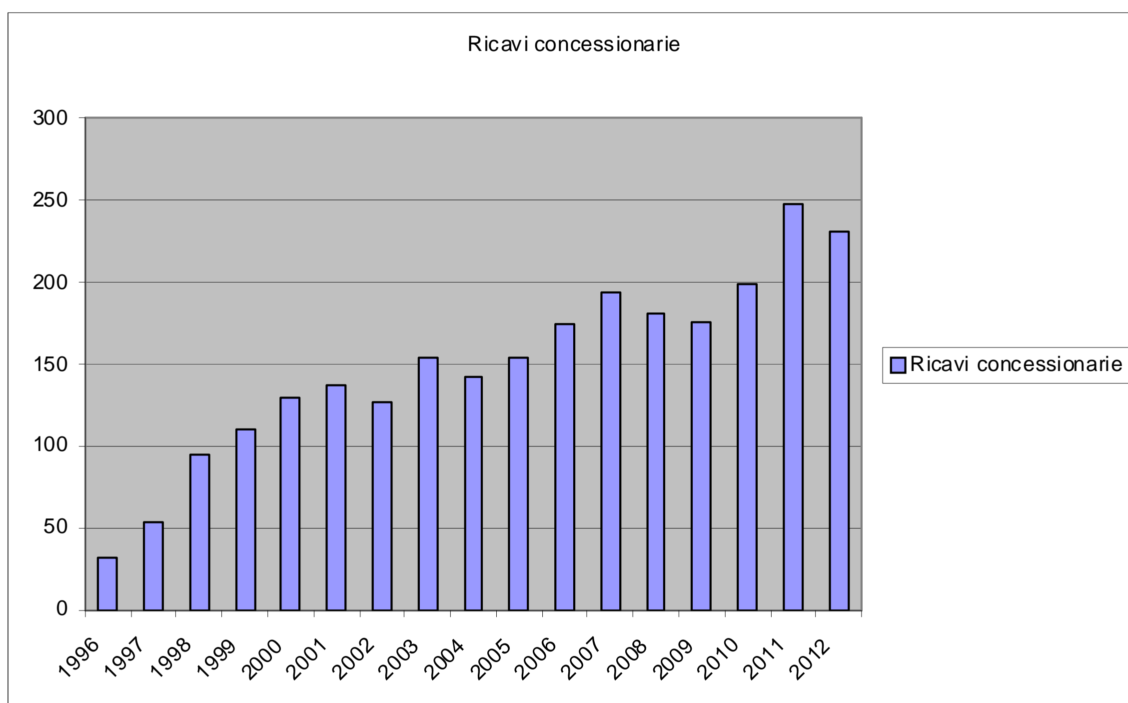
Risks associated with the importance of the advertising concession contracts with third-party publishers

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

In 2012, approximately 62.6% of Group gross revenue was generated from advertising for third-party publishers with respect to the Cairo Communication Group, specifically: TIMedia (La7 and La7d), EDB Media (Sportitalia, Sportitalia 2 and Sportitalia 24) and Turner Broadcasting (Cartoon Network, Boomerang, and CNN).

Once finalized, the acquisition of the entire share capital of La7 will allow the upstream integration of Cairo Communication’s brokerage activities for the sale of advertising space on La7 and La7d.

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



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

Risks associated with contractual commitments

The advertising concession contract regarding La7 sets minimum annual gross advertising revenue in 2013 of Euro 126 million, with minimum annual guaranteed fees for Telecom Italia Media of Euro 88.2 million (70%).

In December 2010, Telecom Italia Media and Cairo agreed to revise the advertising concession contract of 19 November 2008. Specifically, for 2011 and for the 2012-2014 three-year period,

both set additional annual advertising revenue targets (unguaranteed) with respect to the minimum annual revenue, proportional to the achievement by Telecom Italia Media of annual targets of share higher than the given 3% for La7's share. Cairo's achievement of these additional targets, or payment to Telecom Italia Media of equivalent dues, will entitle Cairo to renew the contract up to 31 December 2019. Otherwise, Telecom Italia Media is authorized to withdraw from the contract.

The contract regarding the La7d digital channel sets minimum gross advertising revenue in 2013 of Euro 8 million for a 0.2% share of the channel, with minimum guaranteed fees for Telecom Italia Media of Euro 5.6 million, paid as per contract on a monthly basis. A result higher or lower than the 0.2% share will produce a corresponding increase or decrease in minimum annual revenue and in the guaranteed minimum fee.

Starting from May 2012, Telecom Italia began the process for the possible sale of the investment held in Telecom Italia Media, that is, the possible separate disposal of TV activities (La7 and the MTV Italia Group) and network operator activities (TI Media Broadcasting) headed by the company.

In August 2012, Telecom Italia Media filed a judicial claim against Cairo Communication alleging certain breaches of the advertising concession contract relating to individual occurrences extremely immaterial under an economic standpoint, which are deemed by Cairo Communication totally groundless, and seeking compensation for the damages suffered as consequence of such breaches. Telecom Italia Media reserved the right to determine the amount of the damages during the proceedings.

As part of the abovementioned transaction to acquire the entire share capital of La7 S.r.l. - the completion of which is currently subject to the authorizations pursuant to the current legislation - Telecom Italia Media and Cairo Communication signed a binding agreement envisaging, among other things, Telecom Italia Media's commitment to (i) file in early April 2013, formal acknowledgement of the discontinuance of action and request termination; (ii) at the date of execution of the acquisition agreement, to sign a waiver of the legal action and of any claim relating to the advertising concession contracts.

Risks associated with developments in the media segment

The media segment has seen an increase in the level of penetration of new communication resources, in particular the Internet 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 internet and of the digital thematic television may impact on the traditional TV audience.

The Group constantly monitors the level of penetration of new resources as well as changes in the business model related to the distribution of content available to assess the opportunity to develop the various distribution platforms, with particular attention to the Internet.

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

Risks associated with Management and “key staff”

The Group’s success depends on the talents of its executive Directors and other members of Management to efficiently manage the Group and the individual business segments. Editors, too, have a significant role in relation to their publications.

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

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

The Cairo Communication Group publishes a number of leading Italian weeklies, “Settimanale Dipiù” (543,389 copies), “DipiùTV” (384,374 copies), “Settimanale Dipiù e DipiùTV Cucina” (350,990 copies), “TVMia” (161,264 copies) “Diva & Donna” (174,439 copies), “Settimanale Nuovo” (207,254 copies) and “F” (116,357 copies). Among the monthlies, “Gardenia”, “Bell’Italia”, “For Men Magazine”, “Natural Style” and “Arte” are leaders in their own segment.

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

The Group publishing strategy has always been focused on the quality of its products, driven by the efforts of Management and the editors. Under the agreements with the editors of the weeklies,

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

Risks associated with business with suppliers

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

The relationship with the printer used by the Group, which dates back to 1999 - the year Editoriale Giorgio Mondadori was acquired - is governed by an agreement valid until 2015. The printer is one of the main operators in a market which has excess production capacity and is populated by other large players.

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

Liquidity 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 61.2 million, whilst on the other hand, the Group attempts to ensure that an appropriate ability to generate cash is maintained, despite current market conditions.

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

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

Interest rate and currency risk

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

Interest rate risk only affects the yield on available cash. Movements in the cash flow and the liquidity of Group companies are centrally monitored and managed by Group Treasury in order to guarantee effective and efficient management of financial resources.
Given limited exposure to both interest rate and currency risk, the Group does not use financial derivative and/or hedging instruments.

Credit 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 14% (16% in 2011) of advertising revenue, while the top 100 customers account for 58% (57% in 2011). These indicators are in line with prior years.
Deterioration of the short and medium-term economic uncertainty - starting especially from autumn - along with the resulting credit squeeze, may of course impact negatively on the quality of credit and on general payment terms.
The publishing segment, on the other hand, presents limited exposure to credit risk as publishing revenue is basically generated by one single party - the Group - whilst for distribution revenue, the distribution contract provides for an advance payment equal to a highly significant percentage of the estimated sales of each magazine.
The Group's maximum theoretical exposure to credit risks at 31 December 2012 is given by the carrying amount of trade receivables and other recognized receivables totaling Euro 103.9 million (117.1 million at 31 December 2011), and by the nominal amount of guarantees furnished on third-party debts or commitments as indicated in Note 34 to the consolidated financial statements.
The credit risks associated with cash and cash equivalents, with a maximum theoretical exposure of Euro 61.2 million (Euro 54.7 million at 31 December 2011), 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 most ample management powers to achieve corporate objects. Elected every three years at the Shareholders' Meeting, it appoints one or more Chief Executive Officers and determines their powers, and those of the Chairman.

The Remuneration Committee and the 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 these 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 19 March 2013

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 19 March 2013, 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 without requirements of representation, legitimization, circulation of the company investment required for securities traded on regulated markets.

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

At 19 March 2013, based on the information received pursuant to art. 120 of the T.U.F. and the update of the shareholders' register, the principal shareholders in Cairo Communication S.p.A. were as follows:

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

At the same date, Cairo Communication S.p.A. held a total of n. 450,779 treasury shares, or 0.575% 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 of 26 April 2012, after revoking a similar resolution adopted on 28 April 2011, the Shareholders approved the proposal to acquire and dispose of treasury shares in accordance

with art. 2357 and subsequent articles of the Italian Civil Code, for the purpose of stabilizing the Company share price and sustaining liquidity, and, if deemed necessary by the Board of Directors, of establishing a “shares stock” as provided in Consob regulation 16839/2009. The Board was authorized to acquire treasury shares up to the maximum number permitted by law, for a period of 18 months from the date of authorization, by use of available reserves, including the share premium reserve, as resulting from the last approved annual financial statements.

Specifically, the Board of Directors will be authorized to acquire treasury shares on one or more occasions, acquiring shares directly on the market and through authorized intermediary – in accordance with the procedures provided by art. 144 bis, paragraph 1, letter b of the Issuer Regulation and relevant Instructions – and, in case such operations are carried out, according to accepted market practices, pursuant to the regulations introduced by Consob Resolution No. 16839/2009. Minimum and maximum acquisition prices per share are set at an amount equal to the average official purchase price of the share on Borsa Italiana S.p.A. for the 15 working days preceding the purchase respectively reduced or increased by 20%, in any event within a maximum limit of Euro 6.5 per share. In case such operations are carried out in accordance with accepted market practices pursuant to Consob Resolution no. 16839/2009, the purchase of treasury shares is subject to further limits, including price limits, provided for thereto. The proposal of the Board also allows for the authorization to sell, on one or more occasions, any acquired treasury shares, setting the minimum sale price per share no lower than the minimum price calculated following the criteria adopted for their purchase. Should the treasury shares be sold in accordance with accepted market practices pursuant to Consob Resolution 16839/2009, the sale of treasury shares shall be subject to further limits, including price limits, provided for thereto.

In 2012, as part of the share buy-back plans, 79 thousand treasury shares were purchased (or 0.101% of the share capital), equivalent to a total value of Euro 214 thousand.

At 31 December 2012, Cairo Communication held a total of n. 450,779 treasury shares, or 0.575% of the share capital, for a carrying amount of Euro 1,347 thousand, subject to art. 2357-ter of the Italian Civil Code.

Management and coordination activities

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

- Cairo Pubblicità S.p.A.

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

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

***

It must 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.

4 Board of Directors

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

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

Specifically:

- lists must be filed with the registered office within the 25th day prior to the date on which the Shareholders' Meeting is called to decide on the appointment of the members of the Board of Directors, and made available to the public at the registered office, on the Company website and in accordance with the procedures provided for by the law and regulations, at least 21 days before the date of the Meeting;
- lists admitted to the voting are those submitted by shareholders who, either individually or jointly with other shareholders, represent at least 2.5% of the shares entitled to vote in the ordinary meeting, or other minimum amount set by Consob;
- ownership of the minimum stake required for submission of the lists is determined on the basis of the shares recorded in the name of the shareholder on the date the lists are filed with the Company. The relevant prescribed certification may also be submitted subsequent to the filing, provided submission is made within the time limit prescribed for publication of the lists;
- for the purposes of the appointment of the directors, account is taken exclusively of lists that have received at least half the votes established by the bylaws for the submission of lists;
- candidates shall appear in the lists in progressive order and equivalent to the number of directors to appoint. Should more than one list receive at least half the votes as required by the bylaws for submission of the lists, candidates appointed to the position of director shall be those appearing in the list that has received the highest number of votes, except for the last candidate appearing in the list and the candidate appearing on top of the list that has received the second-highest number of votes that is in no way, even indirectly, connected with the shareholders that have submitted or voted the list that has received the highest number of votes, subject to the possession of the requirements of independence set forth in art. 148, paragraphs 3 and 4 of the TUF and of further requirements set forth in the Corporate Governance Code of Borsa Italiana S.p.A., failing which the appointed candidate, in his/her place, shall be the first candidate appearing in progressive order on the list possessing the foregoing requirements of independence. Should two or more lists reach a tie, the prevailing list shall be the list possessing the largest shareholding or, in the event of a tie, the highest number of shareholders;
- each list must contain candidates possessing the requirements of independence referred to in art. 147-ter, paragraph 4, of the TUF, and further requirements set forth in the Corporate

Governance Code of Borsa Italiana S.p.A., in the minimum amount established by the provisions of law and regulations, taking also into account the share listing segment;

- in order to be admitted to the voting, each list must be accompanied by detailed information on the professional and personal qualifications of the candidates, by the statement on possession of the requirements of independence prescribed by law and by further requirements set forth in the Corporate Governance Code of Borsa Italiana S.p.A., and by indication of the identity of the shareholders who have submitted the lists and total percentage of shares held.

The Group's bylaws are about to adopt the mandatory rules on the appointment of directors and their allocation based on the gender equality criterion, in accordance with the requirements of applicable law.

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 favorable vote by 76.017% of the share capital, 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.

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

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

Board of Directors											**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	-	-	86	-	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	86	3	-	-	X	100	X	100
N. of meetings held in 2012:						BoD: 7			CRC: 4		RC:3			RPC: 2		

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 meetings of 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 as assistant to Silvio Berlusconi. He went to work for Publitalia ’80 in 1985, where he was appointed Deputy-General Manager in 1990. In 1991 he was appointed as managing director of Mondadori Pubblicità. In December 1995 he founded Cairo Pubblicità, which initiated its distributorship activity for a number of RCS Group magazines. He has therefore been the main leader behind Cairo Communication Group’s growth, whose main phases are associated with the 1998 acquisition of the company Telepiù Pubblicità, followed by Cairo TV, dedicated PAY TV distributor, the February 1999 acquisition of Editoriale Giorgio Mondadori, Cairo Communication’s listing in 2000, the contract for the exclusive rights for the sale of advertising space on LA7 at the end of 2002, the birth of Cairo Editore in 2003 and his subsequent activity in developing successful new publishing initiatives (the launch of “For Men Magazine” and “Natural Style” in 2003, “Settimanale Dipiù” in 2004, “Dipiù TV”, “Diva e Donna” in 2005, “TV Mia” in 2008, and “Settimanale Nuovo” and the women’s weekly “F” in 2012).

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

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

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

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

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

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

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

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

The Board of Directors met 7 times during the year. The Board meetings lasted an average of 2 hours. Seven meetings are planned for the current year, four have already been held at 19 March 2013. 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 Board of Directors holds the power to (i) purchase, sell or exchange company branches, and companies for amounts in excess of Euro 5 million and (ii) the power to furnish guarantees and endorsements for amounts in excess of Euro 2 million. These powers, or the following powers, cannot be delegated to individual directors:

a) examination and approval of company strategic, business or financial plans or those relating to the Cairo Communication Group, 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) examination and approval of (i) extraordinary transactions, and (ii) transactions involving a potential conflict of interest.

The Board of Directors has also identified the significant transactions 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 finance and guarantees (including letters of patronage);

v) any other action pertaining to property rights.

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

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

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

During the year, the Board:

- evaluated the appropriateness of the organizational, administrative and general accounting structure of the company and of its strategically important subsidiaries (based on their contribution to Group profits and revenue, Cairo Editore S.p.A., Cairo Pubblicità S.p.A. and Cairo Publishing S.r.l.), with particular reference to the internal control 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 control 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 10 May 2012, 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 in terms of the bylaws requirement of between five and eleven members) appears reasonable, taking into consideration the size and nature of corporate activities;
- the composition of the Board of Directors, considering that the three executive directors, with specific experience in company management, one of whom in finance, are supported by five non-executive directors, of whom three are independent, two are lawyers and two are chartered accountants, is appropriate;
- the role of the Board of Directors and its Committees, as shown in the above table, appears consistent with the size and nature of corporate activities with sufficient delegation of powers granted to the Chairman and to one other executive director.

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

4.4 Management

Given the size of the Group and Parent, 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 delegated bodies provide appropriate and regular information every three months to the Board and to the Statutory Auditors. There is no executive committee.

4.5 Other executive directors

There are no other executive directors. 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. Specifically, regarding the requirements of independence of directors Marco Janni and Roberto Rezzonico (who have been directors of the company for more than nine years out of the last twelve) and of Mauro Sala (who has been statutory auditor of the company for more than

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

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

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

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

(iv) given also the interest of the Company to still avail itself of the directors' specific experience and in-depth knowledge of the Company's inner workings gained during their term in its various bodies,

confirmed the persistence of the requirement of independence of the foregoing directors (the Board of Statutory Auditors 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 meeting on 10 May 2012, 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, 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.

It was not deemed necessary to request from those directors who, in the lists for the appointment of the Board, indicated their adequacy to qualify as independent, a commitment to maintain independence during their term of office and, where appropriate, to resign since, under the bylaws, each independent director who, following appointment, loses the independence requirements, is removed from office.

4.7 Lead Independent Director

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

5 Treatment of privileged information

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

The Company also enacted the regulations which, in replacement of the self-regulation included in the Code of Conduct on Insider Dealing, places strict disclosure obligations on "relevant persons" of listed companies in relation to share trading carried out by them or persons closely linked to them. In addition, the Company banned "relevant persons", with binding effect, from trading in Company shares or related financial instruments, being purchase, sale, subscription or exchange, either directly or through a third party, during the 15 days ahead of any meeting called to approve the financial statements for that period. The exercise of stock options or option rights relating to financial instruments (in any case, currently not in progress) is not included in the ban. The sale of shares derived from stock option plans, including sales carried out as part of the exercise of options, is also exempt. The restrictions, however, do not apply to exceptional situations which are subjectively necessary and appropriately motivated in the interest of the Company.
The Company also has a procedure in place for internal management and the publication of documents and confidential information, particularly price sensitive information governed by the following directives:

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

b) The management of Information is the sole responsibility of the Company Chairman. In particular, the communication of Information to Consob, the Communications Regulatory Authority (Agcom), Borsa Italiana S.p.A., the media, press agencies, public relations consultants, financial analysts, journalists and any other administrative or

regulatory authorities overseeing the activities of the Cairo Group must be carried out exclusively by the Company Chairman directly or occasionally through representatives chosen by him. All Directors and members of the Board of Statutory Auditors must show the utmost discretion in relation to Information acquired while carrying out their duties and must respect Company procedures relating to the publication of Information.

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

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

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

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

6 Board of Directors' Committees

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

7 Appointment Committee

The Board of Directors had at the time decided not to proceed with the formation of an Appointment Committee, as it was confirmed that the restricted composition of the Board of Directors is in a position to carry out the functions of the Appointment Committee. Accordingly, an Appointment Committee has not been formed.

It must be noted 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), are applied as from the first renewal of the Board of Directors following the end of the period which started in 2011. Regarding the company, renewal will take place in 2014.

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 2012, the Remuneration Committee met twice, 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 2012 financial statements, to which reference is made for all the details.

At its meeting on 19 March 2013, the Board of Directors established a general remuneration policy for the year 2013 (illustrated in Section I of the Remuneration Report) for executive directors, other directors with particular responsibilities and key management personnel, which sets out, among other things, the guidelines for the:

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

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

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

d) deferral of part of the variable component, consistent with the risk profiles associated with the company's business.

Incentivized remuneration criteria have gradually been introduced over the years for executive directors and key management personnel, 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 2012 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 control manager and for the Financial Reporting Manager.

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

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

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

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

10 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:

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

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

viii) may request the internal control 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 2012, the Control and Risk Committee met 4 times. Minutes of the meetings, lasting for about 3 hours, were recorded. Five meetings are scheduled this year, two have already been held at 19 March 2013.

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

The operation of the 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 control manager, no facts of particular relevance emerged that needed to be reported and the Committee deemed the internal control system as being appropriate.

On 3 May 2011, the Board of Directors allocated Euro 20 thousand as annual remuneration to the 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 company's strategic objectives;
- ii) 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, upon 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 control 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 is mainly based 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.

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

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

At least annually, the financial reporting manager confers with 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 control 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 control manager, the 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 audit system, is by nature limited. While well-structured and in operation, the internal audit system is designed only to guarantee accomplishment of corporate objectives with "reasonable assurance".

11.1 Executive director 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 2012, he was responsible for:

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

The director in charge of the internal control and risk management system has requested the internal control 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 control manager

The role of internal control manager is carried out by an external professional, Ezio Micheli, appointed at the end of 2007 on the proposal made by the executive director responsible for the internal control system and taking account of the opinion of the 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 control manager the responsibilities foreseen by the Corporate Governance Code and has defined his remuneration, in line with corporate policy, providing him with the appropriate means to fulfill his duties.

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

operating area and is not subordinate to any person in charge of operating areas, including administration and finance.

The internal control manager has been allowed direct access to all useful information for the performance of his duties and has reported on his activities to the 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 2012, the activities of the internal control 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 control 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. A similar model was also adopted on 13 November 2008 by the subsidiaries Cairo Pubblicità S.p.A. and Cairo Editore S.p.A.

As part of the activities for verifying the application and updating of its Organizational Model:

- in 2009 the Supervisory Board deemed it appropriate to propose the updating of the Model to add, in the general and special sections, a specific part involving crimes regarding handling of stolen goods and money laundering, and one involving computer crimes, which had been left out in the original version;
- in 2012, the Supervisory Board deemed it appropriate to propose the updating of the Model to add, in the general and special sections, a specific part involving copyright crimes under law 633/1941 (art. 25 *novies,* Legislative Decree n. 231/01), which had been left out in the previous version.

At its meeting on 10 May 2012, the Board of Directors approved the new Model, which acknowledges the changes.

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 2012, the members of the Supervisory Board of Cairo Communication S.p.A. were Ezio Micheli, internal control manager, Giacomo Leone and Marco Bisceglia, Chairman.

11.4 Audit Firm

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

11.5 Financial Reporting Manager

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

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 control 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 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 control 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., upon the favorable opinion of the independent directors, adopted the procedures for related party transactions (the "Procedures"), for the purpose of guaranteeing "*substantial and procedural transparency and fairness of related party transactions*" carried out by the Company directly or through its subsidiaries, establishing a Related Party Committee.

Pursuant to the Regulation, Cairo Communication is considered a "small company", since its assets and its revenue shown in the consolidated financial statements at 31 December 2011, are lower than Euro 500 million, amounting respectively to approximately Euro 193 million and to approximately Euro 282 million. For such companies, the Regulation provides for the possibility to "apply to transactions of greater importance, as a waiver to art. 8, a procedure identified pursuant to art. 7 of the Regulation" (transactions of lesser importance).

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

a) the definition of related parties and transactions;

b) roles and responsibilities;

c) transactions of greater importance, being those in which at least one of the ratios of significance (equivalent value relevance ratio, assets and liabilities relevance ratio)

set out in the Regulation are higher than the threshold of 5%, or of 2.5% for transactions whose purpose is the disposal of intangible assets of strategic importance;

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

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

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

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

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

Regarding transactions of greater importance falling under the competence of the Shareholders, in the event the resolution proposal is approved, notwithstanding contrary advice by the Related Party Committee (or by other bodies), the transaction is not carried out if the majority of unrelated shareholders votes against the transaction, provided the unrelated shareholders attending the Meeting represent at least 10% of the share capital with voting right (whitewash

mechanism). For such purpose, in the resolution proposal, the Board adds a provision that specifies that the effectiveness of the transaction is subject to the foregoing majority.

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

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

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

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

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

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

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

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

Specifically:

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

subsequent to such date. In this event, the foregoing 2.5% threshold (or other minimum amount set by prevailing laws) is reduced by half;

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

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

At their meeting on 28 April 2011 the Shareholders appointed the Board of Statutory Auditors for a three-year period, until the approval of the financial statements at 31 December 2013, on the basis of a single list presented by the major shareholder, UT Communication S.p.A. approved with the favorable 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	14
Standing Auditor	Marco Giuliani	01/01	31/12	M	X	100	12
Standing Auditor	Maria Pia Maspes	01/01	31/12	M	X	100	13
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. meetings held during 2012: 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 2012, 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 control 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 provisions of law and regulations applicable, as recently amended by Legislative Decree 27/2010 regarding shareholders’ rights.

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

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

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

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

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

17 Further corporate governance practices

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

18 Changes after year end

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

Treasury shares

Movements in treasury shares are disclosed in Note 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 2012 and its composition at 31 December 2012 can be analyzed as follows:

Description	01/01/2012	Recruitments	Terminations	Advancements	31/12/2012
Open-ended contracts	269	16	(9)	1	277
Senior managers	14	1	(1)	-	14
Managers	20	-	(1)	1	20
Employees	134	4	(7)	-	131
Journalists and freelance	101	11	-	-	112
Fixed-term contracts	7	14	(7)	(1)	13
Senior managers	-	-		-	-
Managers	-	-		-	-
Employees	2	2	(2)	(1)	1
Journalists and freelance	5	12	(5)	-	12
Total	**276**	**30**	**(16)**	**-**	**290**

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

	Senior managers	Managers	Employees	Journalists
Men (number)	14	14	32	44
Women (number)	-	6	100	80
Average age	50	46	41	45
Seniority	10	9	9	9
Open-ended contracts	14	20	131	112
Fixed-term contracts	-	-	1	12
Other	-	-	-	-
Graduates	12	8	32	67
Diploma holders	2	11	81	54
Middle school graduates	-	-	20	3

Most of the employees (225) work in the publishing segment. Two out of seven editors-in-chief of Group publications are women.

The advertising segment draws on a sales force composed of approximately 100 agents (direct and indirect) who are coordinated by senior sales managers and staff who, together with their staff, also ensure coordination with the editors and the promotion of special 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 updated the Personal Data Policy Document, which establishes treatment followed, resources subject to security measures, risks, rules (physical and logical measures, and security organizational measures) and the relating training plan.

In previous years, both the technical and organizational measures and methods, relative to the conservation of the identifying details of the system administrators and to the verification of the work performed by them, to guarantee the monitoring of the work of the same, were adopted - adding to those that were already operative where necessary.

EVENTS AFTER THE REPORTING PERIOD AND BUSINESS OUTLOOK

In 2012, the Group faced tough challenges in its relevant market, owing in particular to the advertising trend (in 2012, according to AC Nielsen figures, -18.4% the magazine advertising market and -15.3% the TV advertising market versus 2011). 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.

In 2012, the Group:

- returned, with the launch of "Settimanale Nuovo" and of the women's weekly "F", to the strategy of development, through the planning and launch of new publications, which had marked its strong growth in the 2003-2006 four-year period,
- managed to limit the drop in advertising revenue, in particular TV advertising revenue, versus the general market trend, and

- achieved revenue basically in line with 2011 and highly positive results despite the considerable costs incurred for the two new titles, thanks to the quality of its publications and of the media under concession, and to the corporate and editorial strategy, which had helped adopt cost-curbing measures to increase the efficiency and effectiveness of the production, publishing and distribution processes.

In the early months of 2013, the general economic and financial situation, which is marked by strong uncertainty factors, continues to show its effects, resulting in growing complexity of the competitive picture.

In 2013, the Cairo Communication Group will continue to develop its core businesses:

- publishing, led by Cairo Editore and Cairo Publishing, with efforts geared towards:
    - strengthening the results of "Settimanale Nuovo" and "F" and continuing with its growth strategy through the study, planning and launch of new titles,
    - retaining the high circulation levels of its publications, supporting them with adequate investments,
    - improving the levels of efficiency reached in curbing production, publishing and distribution costs; specifically, in 2013 Cairo Editore will continue to pursue opportunities to optimize these costs, and expects to achieve cost savings in excess of Euro 6 million versus 2012, also considering the launch costs incurred in 2012 for the two weeklies;
- advertising sales on TV, on the Group's publications and on Prima Comunicazione and at the "Olimpico" stadium in Turin for Torino FC, with the aim of retaining the high level of advertising revenue despite the general market trend;

for these activities, despite the current economic and competitive context, and given the quality of the publications and of the media under concession, the Group considers it a feasible target to achieve highly positive operating results also in 2013.

As mentioned earlier, after year-end 2012, Cairo Communication S.p.A. signed an agreement with Telecom Italia Media for the acquisition of the entire share capital of La7 S.r.l., excluding the investment held by La7 S.r.l. in MTV Italia S.r.l., for a consideration of Euro 1 million. The completion of the transaction, which is currently subject to the authorizations pursuant to the current legislation, will allow Cairo Communication to enter the TV publishing field, with the upstream integration of its brokerage business for the sale of advertising space, and will also enable it to diversify its publishing activities which are currently focused on magazines.

In 2012, excluding the impairment of goodwill and non-current assets, La7 reported a pro forma operating loss (Ebit) of approximately Euro 96 million[1], deteriorating versus the pro forma comparative operating loss of approximately Euro 43 million in 2011, as a result mainly of the increase in programme schedule costs. The company's current financial situation calls for the implementation of a restructuring plan aimed at reorganizing and streamlining the corporate structure and at curbing costs, retaining the high quality levels of the schedule. Under the agreements, the seller undertakes to help implement this project. Under the main terms of the agreements in fact, Telecom Italia Media will undertake, at the date of execution, to achieve a positive net financial position of at least Euro 88 million and equity of at least Euro 138 million for La7.

Once the acquisition of La7 is finalized, the Group will engage on a plan to restructure the company, with the aim of curbing costs as early as 2013 and to achieve a turnaround by adopting the following main guidelines:

- confirming the current editorial line and those programmes that represent the main strengths of the channel,
- curbing costs, focusing in particular on “unproductive” cost items and on recovering efficiency,
- targeting action on the programme schedule, with new programmes to strengthen various timeslots, afternoon timeslots in particular, focusing on a younger female audience,
- enhancing the high-quality target of the La7 audience, to maintain and develop the high level of advertising revenue against the general market backdrop.

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

For the Board of Directors

Chairman

Urbano Cairo

[1] As shown in the 2012 annual financial report of Telecom Italia Media, available on the Borsa Italiana and Telecom Italia Media websites

Dear Shareholders,

At the meeting held on 19 March 2013, the Board of Directors resolved to submit the financial statements as at and for the year ended 31 December 2012 to the approval of the Shareholders and to propose the distribution of a dividend of 0.27 Euro per share, inclusive of tax, Euro 0.13 of which already distributed as an interim dividend under the decision of the meeting of the Board of Directors of 14 November 2012.

Shareholders are invited:

- to approve the financial statements as at and for the year ended 31 December 2012;
- to resolve on the proposal to distribute to shareholders, with the exception of treasury shares held the evening prior to the record date pursuant to art. 83-terdecies of Legislative Decree 58/1998, a dividend of 0.27 Euro per share, inclusive of tax, Euro 0.13 of which already distributed as an interim dividend under the decision of the meeting of the Board of Directors of 14 November 2012:
    - allocating profit for the year - Euro 21,061,929 – in the required amount to the dividend, and, considering the distributed interim dividend of Euro 10,126,040, distributing a further sum of Euro 10,904,967 and carrying the difference forward; the amount may be lower or higher, depending, respectively, on the higher or lower amount of treasury shares held by the Company on the evening prior to the record date pursuant to art. 83-terdecies of Legislative Decree 58/1998 with respect to those held at 19 March 2013, amounting to 450,779 shares; should the Company, at that date, hold a lower number of treasury shares, any difference between dividend and profit for the year (up to a maximum of Euro 32,187, should the treasury shares be equal to zero) will be drawn from the share premium reserve.

If approved by the Shareholders, the balance of the dividend, amounting to Euro 0.14 per share, will be made payable from 16 May 2013 (record date pursuant to art. 83-terdecies of Legislative Decree 58/1998: 15 May), prior to detachment of coupon n. 7 on 13 May 2013.

For the Board of Directors

Chairman

Urbano Cairo

CAIROCOMMUNICATION

Consolidated Financial Statements and notes thereto

Consolidated income statement for the year ended 31 December 2012

€ thousands	Notes	31 December 2012	31 December 2011
Revenue	1	275.938	281.549
Other revenue and income	2	4.300	2.567
Changes in finished goods	3	(38)	(124)
Raw materials, consumables and supplies	4	(28.704)	(24.501)
Services	5	(191.980)	(192.988)
Use of third-party assets	6	(2.651)	(2.285)
Personnel expense	7	(24.856)	(23.630)
Amortization, depreciation, provisions and impairment losses	8	(2.743)	(3.584)
Other operating costs	9	(946)	(1.080)
Operating profit		**28.320**	**35.924**
Loss on investments	10	(1.461)	(765)
Net financial income	11	1.746	1.327
Pre-tax profit		**28.605**	**36.486**
Income tax	12	(9.940)	(13.027)
Profit from continuing operations		**18.665**	**23.459**
Loss from discontinued operations	13	**(1)**	**(10)**
Profit for the year		**18.664**	**23.449**
- Owners of the parent		18.663	23.446
- Non-controlling interests - discontinued operations		0	0
- Non-controlling interests - continuing operations		1	3
		18.664	**23.449**
Earnings per share (€)			
- Earnings per share - continuing and discontinued operations	15	0,240	0,301
- Earnings per share - continuing operations	15	0,240	0,302

Consolidated statement of comprehensive income for the year ended 31 December 2012

		31 December 2012	31 December 2011
Profit for the year		**18.664**	**23.449**
Profit (loss) on measurement of available-for-sale financial assets	18	0	(8)
Total comprehensive income for the year		**18.664**	**23.441**
- Owners of the parent		18.663	23.438
- Non-controlling interests - from discontinued operations		0	0
- Non-controlling interests - continuing operations		1	3
		18.664	**23.441**

Consolidated statement of financial position at 31 December 2012

€ thousands Assets	Notes	31 December 2012	31 December 2011
Property, plant and equipment	16	2.942	2.724
Intangible assets	17	9.107	9.282
Investments	18	21	1.482
Non-current financial assets	18	58	58
Deferred tax assets	19	4.263	4.734
Total non-current assets		**16.391**	**18.281**
Inventories	20	3.857	3.389
Trade receivables	21	90.381	110.808
Receivables from parents	31	4.699	1.467
Other receivables and other current assets	22	8.177	4.799
Cash and cash equivalents	24	61.234	54.701
Total current assets		**168.348**	**175.164**
Total assets		**184.739**	**193.445**

Equity and liabilities		31 December 2012	31 December 2011
Share capital		4.074	4.074
Share premium reserve		45.452	49.586
Prior-year earnings (losses) and other reserves		2.287	(1.683)
Interim dividend of parent		(10.126)	(11.696)
Profit for the year		18.663	23.446
Equity attributable to the owners of the parent		**60.350**	**63.727**
Non-controlling interests share capital and reserves		**4**	**3**
Total equity	**25**	**60.354**	**63.730**
Post-employment benefits	26	4.086	3.898
Provisions for risks and charges	28	2.279	2.182
Total non-current liabilities		**6.365**	**6.081**
Trade payables	30	104.932	107.029
Payables to parents	31	11	2.156
Tax liabilities	32	1.451	2.005
Other current liabilities	33	11.626	12.444
Total current liabilities		**118.020**	**123.633**
Total liabilities		**124.385**	**129.714**
Total equity and liabilities		**184.739**	**193.445**

Consolidated statements of cash flows

€ thousands	31 December 2012	31 December 2011
CASH AND CASH EQUIVALENTS	**54.701**	**58.260**
OPERATING ACTIVITIES		
Profit for the year	18.664	23.449
Amortization and depreciation	882	842
Loss on investments	1.461	765
Net financial income	(1.746)	(1.327)
Income tax	9.940	13.027
Change in post-employment benefits	188	7
Change in provisions for risks and charges	97	58
Cash flow from operating activities before changes in working capital	**29.486**	**36.821**
(Increase) decrease in trade and other receivables	17.048	(6.872)
Increase (decrease) in trade and other payables	(4.177)	11.330
(Increase) decrease in other assets	0	79
(Increase) decrease in inventories	(468)	(437)
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	**41.890**	**40.921**
Income tax paid	(15.400)	(16.733)
Financial expense paid	(126)	(117)
TOTAL NET CASH FROM OPERATING ACTIVITIES (A)	**26.364**	**24.071**
INVESTING ACTIVITIES		
(Acquisition) disposal net of PPE and intangible assets	(924)	(641)
Interest and financial income received	1.872	1.444
Net increase in other non-current assets	0	6
NET CASH USED IN INVESTING ACTIVITIES (B)	**948**	**809**
FINANCING ACTIVITIES		
Dividends paid	(20.559)	(29.633)
(Acquisition) disposal of treasury shares	(214)	1.200
Other changes in equity	(5)	(6)
NET CASH USED IN FINANCING ACTIVITIES (C)	**(20.778)**	**(28.439)**
CASH FLOW OF THE YEAR (A)+(B)+(C)	**6.534**	**(3.559)**
CLOSING CASH AND CASH EQUIVALENTS	**61.234**	**54.701**

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 2009	**4.074**	**54.657**	**(3.669)**	**(349)**	**0**	**12.034**	**66.747**	**(1)**	**66.746**
Allocation of profit			12.034			(12.034)	**0**		**0**
Dividend distribution		(3.576)	(11.939)				**(15.515)**		**(15.515)**
Other changes			(2)				**(2)**		**(2)**
Profit				(1.775)		20.729	**18.954**	1	**18.955**
Balance at 31 December 2010	**4.074**	**51.081**	**(3.576)**	**(2.124)**	**0**	**20.729**	**70.184**	**0**	**70.184**
Allocation of profit			20.729			(20.729)	**0**		**0**
Dividend distribution		(1.495)	(17.898)				**(19.393)**		**(19.393)**
Interim dividend					(11.696)		**(11.696)**		**(11.696)**
Purchase 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**
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**
Allocation of profit			23.446			(23.446)	**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)**
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**

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

€ thousands	Year ended 31 December 2012	Related parties (*)	% of total	Year ended 31 December 2011	% of total	% of total
Revenue	275.938	160	0,1%	281.549	137	0,0%
Other revenue and income	4.300	24	0,6%	2.567	10	0,4%
Change in finished products	(38)			(124)		
Raw materials, consumables and supplies	(28.704)			(24.501)		
Services	(191.980)	(1.709)	0,9%	(192.988)	(1.748)	0,9%
Use of third-party assets	(2.651)			(2.285)		
Personnel expense	(24.856)			(23.630)		
Amortization, depreciation, provisions and impairn	(2.743)			(3.584)		
Other operating costs	(946)			(1.080)		
Operating profit	**28.320**			**35.924**		
Loss on investments	(1.461)	(1.461)	100,0%	(765)	(765)	100,0%
Net financial income	1.746			1.327		
Pre-tax profit	**28.605**			**36.486**		
Income tax	(9.940)			(13.027)		
Profit from continuing operations	**18.665**			**23.459**		
Profit/loss from discontinued operations	**(1)**			**(10)**		
Profit for the year	**18.664**			**23.449**		

(*) 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 2012	Related parties (*)	% of total	31 December 2011	Related parties (*)	% of total
Property, plant and equipment	2.942			2.724		
Intangible assets	9.107			9.282		
Investments	21			1.482	1.471	99,2%
Non-current financial assets	58			58		
Deferred tax assets	4.263			4.734		
Total non-current assets	**16.391**			**18.281**		
Inventories	3.857			3.389		
Trade receivables	90.381	512	0,6%	110.808	356	0,3%
Receivables from parents	4.699	4.699	100,0%	1.467	1.467	100,0%
Other receivables and other current assets	8.177	47	0,6%	4.799	24	0,3%
Cash and cash equivalents	61.234			54.701		
Total current assets	**168.348**			**175.164**		
Total assets	**184.739**			**193.445**		
Equity and liabilities	**31 December 2012**			**31 December 2011**		
Share capital	4.074			4.074		
Share premium reserve	45.452			49.586		
Prior-year earnings (losses)	2.287			(1.683)		
Interim dividend of parent	(10.126)			(11.696)		
Profit for the year	18.663			23.446		
Equity attributable to the owners of the parent	**60.350**			**63.727**		
Non-controlling interests share capital and reserves	**4**			**3**		
Total equity	**60.354**			**63.730**		
Post-employment benefits	4.086			3.898		
Provisions for risks and charges	2.279			2.182		
Total non-current liabilities	**6.365**			**6.081**		
Trade payables	104.932	39	0,0%	107.029	315	0,3%
Payables to parents	11	11	100,0%	2.156	2.156	100,0%
Tax liabilities	1.451			2.005		
Other current liabilities	11.626	1.262	10,9%	12.444	1.456	12,9%
Total current liabilities	**118.020**			**123.633**		
Total liabilities	**124.385**			**129.714**		
Total equity and liabilities	**184.739**			**193.445**		

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

€ thousands	Year ended 31 December 2012	Related parties	Year ended 31 December 2011	Related parties
CASH AND CASH EQUIVALENTS	54.701		58.260	
OPERATING ACTIVITIES				
Profit for the year	18.664	(2.986)	23.449	(2.366)
Amortization and depreciation	882		842	
Loss on investments	1.461	1.461	765	765
Net financial income	(1.746)		(1.327)	
Income tax	9.940		13.027	
Change in post-employment benefit	188		7	
Change in provisions for risks and charges	97		58	
Cash flow from operating activities before changes in working capital	**29.486**	**(1.525)**	**36.821**	**(1.601)**
(Increase) decrease in trade and other receivables	17.048	(3.411)	(6.872)	(1.333)
Increase (decrease) in trade and other payables	(4.177)	(2.615)	11.330	(90)
(Increase) decrease in other assets	0		79	
(Increase) decrease in inventories	(468)		(437)	
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	**41.890**	**(7.551)**	**40.921**	**(3.024)**
Income tax paid	(15.400)		(16.733)	
Financial expense paid	(126)		(117)	
TOTAL NET CASH FROM OPERATING ACTIVITIES (A)	**26.364**	**(7.551)**	**24.071**	**(3.024)**
INVESTING ACTIVITIES				
(Acquisitions) / disposals net in PPE and intangible assets	(924)		(641)	
Interest and financial income received	1.872		1.444	
Net increase in other non-current assets	0		6	
NET CASH USED IN INVESTING ACTIVITIES (B)	**948**	**0**	**809**	**0**
FINANCING ACTIVITIES				
Dividends paid	(20.559)		(29.633)	
(Acquisition) disposal of treasury shares	(214)		1.200	
Other changes in equity	(5)		(6)	
NET CASH USED IN FINANCING ACTIVITIES (C)	**(20.778)**	**0**	**(28.439)**	**0**
CASH FLOW OF THE YEAR (A)+(B)+(C)	**6.534**	**(7.551)**	**(3.559)**	**(3.024)**
CLOSING CASH AND CASH EQUIVALENTS	**61.234**		**54.701**	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2012

Main activities

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

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

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

Figures are shown in thousands of Euro.

Basis of preparation

Structure, form and content of the consolidated financial statements

The consolidated financial statements at 31 December 2012 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 practices.

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

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

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

The **consolidated statements of cash flows** 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.

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

Basis and scope of consolidation

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

The consolidated financial statements at 31 December 2012 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 31/12/12	% of investment	Reporting date	Business	Consolidation method
Cairo Communication S.p.A.	Milan	4,074		31/12	Advertising	Full
Cairo Editore S.p.A.	Milan	1,043	99.95	31/12	Publishing	Full
Diellesei S.r.l. in liquidation	Milan	2,000	60	31/12	In liquidation	Full re assets and liabilities (*)
Cairo Due S.r.l.	Milan	47	100	31/12	Advertising	Full
Cairo Pubblicità S.p.A.	Milan	2,818	100	31/12	Advertising	Full
Cairo Publishing S.r.l.	Milan	10	100	31/12	Publishing	Full
Il Trovatore S.r.l.	Milan	25	80	31/12	Internet	Full
Edizioni Anabasi S.r.l.	Milan	10	99.95	31/12	Publishing	Full
DMail Group S.p.A.	Milan	15,300	10	31/12	E-commerce - Retail Publishing	Single line

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

As in prior years, the financial statements of the subsidiary Cairo Sport S.r.l. have not been consolidated as the company is not significant. There were no changes in the scope of consolidation at 31 December 2012 compared with the consolidated financial statements at 31 December 2011.

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.
The consolidation of the financial statements of the associate was made on a single line basis, the measurement of the investment being based on the equity method.
Unrealized gains and losses, provided they are not minor, deriving from transactions between companies included in the consolidation scope, are eliminated, as are all significant transactions which give rise to intra-Group receivables and payables, income and expense. These adjustments, like other consolidation adjustments, where applicable, take account of the related deferred tax effect.
Dividends distributed by consolidated companies are eliminated from the income statement and added to prior year profits if and to the extent they were paid out of such profit.

Business combinations

The acquisition of subsidiaries is recognized using the acquisition method. The acquisition price is calculated by the sum of current values, at the exchange date, of the assets acquired, liabilities assumed, financial instruments issued by the Group in exchange for the control of the acquired company.
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 acquisition is recognized as an intangible asset and is initially measured at cost, corresponding to that portion of the acquisition price paid by the Group exceeding the carrying amount of the recognized assets, liabilities and identifiable contingent liabilities.
Equity attributable to non-controlling interests can be measured at fair value or in proportion to the net assets recognized for the acquired company, at the acquisition date. The measurement method is chosen based on type of transaction.
Non-controlling interests, investments in inactive subsidiaries and investments in subsidiaries of small value are measured using the cost at the subscription method, reflecting any impairment losses.
Here below is a summary of the most relevant accounting policies adopted by the Group.

Investments

Associates

Associates are those over which the Group can exercise significant influence through participation in decisions regarding financial and operating policies, but holds neither control nor joint control.
The financial results, assets and liabilities of associates are consolidated using the equity method.
Using this method, investments in associates are recognized in the statement of financial position at cost, adjusted for changes subsequent to the acquisition of the net assets of associates, net of any impairment losses on individual investments. Any losses exceeding the Group share therein are not recognized, unless

the Group has a commitment relating to loss coverage. The excess of acquisition cost over the Group share of carrying amount of assets, liabilities and identifiable contingent liabilities of the associate at the acquisition date is recognized as goodwill. Every year, goodwill is tested for impairment.

With regard to transactions between Group companies and associates, unrealized profits and losses are eliminated in a proportion equal to the Group investment in the associate, except when unrealized losses are evidence of an impairment loss on the business acquired.

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

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

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

Each company that adheres to the national tax consolidation scheme transfers its taxable profit or loss to the tax parent. For any such taxable profit reported by a subsidiary, UT Communications S.p.A. recognizes receivables equal to the IRES payable. Conversely, for any such taxable loss, reported by a subsidiary, UT Communications S.p.A. recognizes a payable equal to IRES due on the loss that has been contractually transferred at Group level.

Deferred tax liabilities are generally recognized for all taxable temporary differences, while deferred tax assets are recognized to the extent of the probability that there will be future taxable profits which will allow for the utilization of the deductible temporary differences. Deferred taxes are calculated on the basis of the tax rates that are foreseen will be in force at the moment of realization of the asset or settlement of the liability, based on tax legislation in force at the reporting date. Where relevant, the effects of any changes in tax rate or tax legislation are disclosed in the notes. Deferred tax assets and liabilities are shown at their net value when there is a legal right to offset current tax liabilities against tax receivable assets and when 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. Actuarial gains and losses are recognized in the income statement.

Non-current assets

Intangible assets

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

Concessions, licenses, trademarks and similar	3 to 5 years for application software licenses rights
Other:	
Software	3 to 5 years
Publication titles	20 years

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 investees that own the title.

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

Property, plant and equipment

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

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

Equity

Treasury shares

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

Dividends paid

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

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 impairment

The allowance for impairment reflects management's estimate regarding the losses on the portfolio of receivables from end customers. The allowance is estimated based on the losses expected by the Group, according to past experience for similar receivables, current and past due dates, losses and receipts arising from the careful monitoring of receivable management and from projections on market and economic conditions.

The persisting uncertainty factors in the short and medium economic term, along with the resulting credit squeeze, could result in 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 2012, 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 2013 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 notes 35 and 37. Reference is made to the Directors' Report for operational and business risks.

Accounting standards, amendments and interpretations applied from 1° January 2012

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 2012:

- Amendment to IFRS 7 – *Financial instruments: improved disclosures* – The amendment, issued by IASB in October 2010 and approved by the European Commission in November 2011, aims to improve the understanding of transfers of financial assets and the possible effects arising from risks associated with the continuing involvement of the entity that has transferred such assets. The amendment requires further information in the event significant transfer transactions are undertaken around the end of the year. The adoption of this amendment produced no significant effects to the information presented in this Financial Report.
- Amendment to IAS 1 – *Presentation of financial statements* – The amendment, issued by IASB in June 2011, is applicable as from 1° July 2012 and requires entities to group items presented in OCI (Other Comprehensive Income) into categories, based on whether they can be potentially re-classifiable or less to profit or loss subsequently.

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

- Amendment to IAS 19 – *Employee benefits* – The amendment, issued by IASB in June 2011, is applicable as from 1° January 2013. It eliminates the option of deferring recognition of actuarial gains and losses via the corridor approach, requiring presentation, in the statement of financial position, of the fund's deficit or surplus and recognition in the profit and loss of cost components relating to service and net financial expense, and recognition of actuarial gains and losses stemming from re-measurement of liabilities and assets among Other income (expense). In addition, the return on assets included in net financial expense must be calculated on the basis of the discount rate for liabilities and no longer on the basis of the rate of return expected for assets. The amendment requires further information to provide in the explanatory notes.
- IFRS 12 – *Improved disclosure on interests in other entities* – The standard, issued by IASB in May 2011, is applicable as from 1° January 2013. It specifically envisages improved disclosure to

be provided on all types of interests, including those in subsidiaries, joint arrangements, associates, special purpose entities and other unconsolidated special purpose vehicles.

- IFRS 11 – *Joint arrangements* – The standard, issued by IASB in May 2011, which will replace IAS 31 – Interests in Joint Ventures and SIC 13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers, is applicable as from 1° January 2013. The standard provides criteria for the identification of joint arrangements based on the rights and obligations arising from such arrangements rather than on their legal form, and establishes the equity method as the sole method of accounting for joint ventures in consolidated financial statements.
- IFRS 10 – *Consolidated financial statements* – The standard, which will replace SIC 1 – Consolidation - Special Purpose Entities and parts of IAS 27 - Consolidated and Separate Financial Statements, was issued by IASB in May 2011 and is applicable retrospectively as from 1° January 2013. The standard identifies the concept of control as the decisive factor for the purposes of consolidation of a company in the consolidated financial statements of the parent. It also provides guidance to determine the existence of control when this is difficult to ascertain.
- IAS 27 – *Separate financial statements* – Following the issue of IFRS 10 in May 2011, IASB has limited the scope of application of IAS 27 solely to the separate financial statements. The standard specifically regulates the accounting treatment of equity investments in separate financial statements and is effective as from 1° January 2013.
- IAS 28 –*Investments in associates and joint ventures* – Following the issue of IFRS 11 in May 2011, IASB amended the existing standard to include investments in joint ventures in its scope of application and to set out the requirements for application of the equity method when accounting for reductions in investments. The standard is applicable as from 1° January 2013.
- Amendment to IAS 32 – *Financial instruments: presentation* – In December 2011, IASB issued amendments to IAS 32 - Financial Instruments: Presentation, to clarify the application of certain criteria for offsetting financial assets against financial liabilities. The amendments are retrospectively applicable to annual periods beginning on or after 1° January 2014.
- Amendment to IFRS 7 – *Financial instruments: improved disclosures* – In December 2011, IASB issued amendments to IFRS 7 – Financial instruments: improved disclosure. The amendment requires disclosures about the effect or potential effect of offsetting of financial assets against financial liabilities on an entity's financial position. The amendments are applicable to the annual periods beginning on or after 1 January 2013 and to interim periods following such date. Disclosure is to be provided retrospectively.
- Amendment to IFRS 1 – *First-time adoption* of *International Financial Reporting Standards* – The amendment issued by IASB in December 2010 cancels reference to the date of 1 January 2004 it contained and described as the date of transition to IAS/IFRS and provides guidance on

the presentation of the financial statements in compliance with IFRS following a period of severe hyperinflation.

- Amendment to IAS 12 – *Income tax* – The amendment, issued by IASB in December 2010, introduces the presumption that recovery of the carrying amount of an investment property will normally be through sale unless there is clear evidence that it will be recovered through use. The presumption will be applied to investment property, plants and machinery, intangible assets recognized or re-valued at fair value. Following these amendments the interpretation SIC 21 Income tax – recovery of re-valued non-depreciable assets – will be repealed.
- IFRS 13 – *Fair value measurement* – The standard, issued by IASB in May 2011, is applicable as from 1° January 2013. The standard defines fair value, clarifies how it is determined and introduces standardized disclosure for items valued at fair value. The standard is applicable to all types of transactions or balances for which another standard requires or allows fair value.

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

- IFRS 9 - *Financial instruments* – The standard, issued by IASB in November 2009 and amended in October 2010, is the opening part of a process that aims to overhaul IAS 39. It is applicable as from 1° January 2015.
- *Improvements to IFRSs: 2009-2011 Cycle*: on 17 May 2012, IASB issued a set of amendments to the IFRS which will be applicable retrospectively as from 1° January 2013, summarized below:
  - *IFRS 1 First-Time Adoption of International Financial Reporting Standards* – Repeated application: it clarifies that if an entity has applied IAS/IFRS in the past, has stopped applying IAS/IFRS and then returns to applying IAS/IFRS, the entity must re-apply IFRS 1. Moreover, regarding – Capitalized financial charges – it clarifies that if an entity has incurred and capitalized financial charges directly attributable to the acquisition, construction or manufacturing of an asset capitalized using local accounting standards, the amount can be maintained at the date of transition to IAS/IFRS; from the date of transition to IAS/IFRS, the capitalization of financial charges will follow the rules set out by IAS 23 Borrowing Costs.
  - *IAS 1 Presentation of Financial Statements* – Comparative information: it clarifies that when additional comparative information is provided, it must be presented in accordance with IAS/IFRS. It also clarifies that when an entity changes an accounting policy or makes a retrospective restatement/reclassification, the entity should present a balance sheet at the beginning of the comparative period ("third balance sheet" in the financial statements), while

no comparative information is required in the supporting notes for the "third balance sheet", apart from the items concerned.

- *IAS 16 Property, Plant & Equipment* – Classification of servicing equipment: it clarifies that servicing equipment must be classified in Property, plant and equipment if used for more than one financial year, in inventories if used for one financial year.
- *IAS 32 Financial Instruments: Presentation* – The tax effect of distributions to equity holders and of transaction costs of equity instruments: it clarifies that direct tax related to this specific case follows the rules of IAS 12.
- *IAS 34 Interim Financial Reporting* - Total assets for a reportable segment: it clarifies that total assets need to be disclosed if the amounts are regularly provided to the chief operating decision maker of the entity, and there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements.

- *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)* – On 28 June 2012, IASB issued amendments to applicable IFRS, together with the relevant standards, for financial periods beginning on or after 1° January 2013, assuming no early application. One of the document's purposes is to amend IFRS 10 to clarify how an investor is required to adjust comparative periods retrospectively if the consolidation conclusions reached at the date of initial application are different under IAS 27/SIC 12 and IFRS 10. The Board also amended IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities to provide similar relief for the disclosure or change in comparatives referring to prior periods with respect to comparative periods presented in the financial statements. IFRS 12 was further amended by providing additional relief in presenting comparatives for disclosures regarding unconsolidated "structured entities" for periods beginning before the date of application of IFRS 12.
- *Draft "Hedge accounting - Chapter 6 of IFRS 9 Financial Instruments"* - Issued by IASB on 7 September 2012. The document seeks to address the remarks raised against the requirements set out by IAS 39 for the application of hedge accounting, considered too stringent and inappropriate. The new elements bring significant changes to the types of transactions eligible for hedge accounting, changes to forward contracts and options accounting when they are included in a hedge accounting relationship, and changes to the effectiveness test, replaced by the principle of "economic relationship" between hedge item and hedging instrument; moreover, a retrospective effectiveness assessment is no longer required for hedging relationships. Further information is however required on an entity's risk management strategy.
- *Investment Entities (Amendments to IFRS 10, IFRS 12, IAS 27 and IAS 28)* – Published by IASB in October 2012. The amendment introduces an exception to IFRS 10 that requires investment

entities to measure certain subsidiaries at fair value through profit and loss instead of consolidating them. This standard applies to financial statements of periods beginning from 1° January 2014. Early application is allowed.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

1. Revenue

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

(€ thousands)	2012	2011
Gross revenue	309,150	316,635
Advertising agency discounts	(33,212)	(35,086)
Revenue, net	**275,938**	**281,549**

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

Gross revenue can be analyzed as follows:

	2012	2011
TV advertising	190,566	201,768
Print media advertising	36,226	41,253
Stadium signage and electronic billboards	1,996	2,094
Internet advertising	1,760	1,332
Magazine sales	75,621	66,838
Subscriptions	3,016	3,126
Books and catalogues	1,302	1,377
VAT relating to publications	(1,439)	(1,253)
Other	102	100
Total gross revenue	**309,150**	**316,635**

As illustrated more in detail in the Directors' Report, in 2012:

- TV advertising revenue (which comprises La7, La7d, Sportitalia and the theme channels Cartoon Network, Boomerang, and CNN) totaled Euro 190.6 million, down 5.5% on Euro 201.8 million in 2011 (*AC Nielsen,* -15.3% the TV advertising market in 2012 versus 2011). Advertising revenue on La7 and La7d, amounting to approximately Euro 173.9 million, was basically in line (-1.8%) with Euro 177.1 million in 2011. In 2012, the average all-day share of La7 was 3.45% (3.82% in 2011), while La7d increased to 0.41% (0.29% in 2011);

- sales revenue from Group publications, amounting to Euro 75.6 million, increased by 13.2% versus 2011 (Euro 66.8 million), thanks to revenue from the new weeklies, "Settimanale Nuovo" and the women's weekly "F", which generated sales revenue of Euro 10.1 million and Euro 3.6 million respectively;
- Gross advertising revenue on the Group's magazines, amounting to Euro 35.2 million, thanks to "Settimanale Nuovo" and "F", managed to limit the drop to -12.1% on the result of 2011 (*AC Nielsen,* the magazine advertising market in 2012 down 18.4% on 2011).

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2. Other revenue and income

Other revenue and income can be analyzed as follows

	2012	2011
Paper	1,302	1,222
Technical services	25	155
Other revenue and prior-year income	2,973	1,190
Total other revenue and income	**4,300**	**2,567**

"Other revenue and prior-year income" includes the print subsidy of Euro 0.9 million (no such item in 2011), prior-year income and not operating revenue.

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3. Changes in finished goods

Changes in finished goods amount to a negative Euro 38 thousand (a negative Euro 124 thousand at 31 December 2011), and arise from the use of the magazine sales during the ordinary course of business relating to Cairo Editore S.p.A. and Cairo Publishing S.r.l.

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4. Raw materials, consumables and supplies

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

	2012	2011
Paper	27,794	23,921
Equipment and sundry materials	1,415	1,141
Change in inventories of paper, equipment and sundry materials	(505)	(561)
Total raw materials, consumables and supplies	**28,704**	**24,501**

The increase in paper costs is related to the launch of the two new weeklies “Settimanale Nuovo” and “F”.

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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:

	2012	2011
Direct brokerage costs	138,424	146,909
Technical costs	349	377
Administrative costs	4,450	5,227
Consultancies and collaborations	13,921	11,962
External processing	19,639	17,757
Advertising and launch promotion costs	3,714	-
Advertising and promotion	6,795	6,124
Organizational costs and overheads	4,688	4,632
Total services	**191,980**	**192,988**

The variation in “direct brokerage costs”, which mainly includes publishers’ fees, agents’ commissions and brokerage fees, is in line with the drop in advertising revenue.

The increase in “consultancies and collaborations”, which includes bordereau costs, and “external processing”, comprising printing and prepress costs, is related to the two new weeklies “Settimanale Nuovo” and “F”.

“Advertising and launch promotion costs” refers exclusively to the advertising and promotional costs incurred for the two new weeklies. Including the pre-publication and study phase, mainly personnel expense, these costs totaled approximately Euro 4.4 million.

“Direct brokerage costs” includes the publishers’ fees of Torino Football Club related to the advertising concession agreement for the sale of stadium advertising space and of promotional-advertising sponsorship packages, except for “main sponsor” positionings, amounting to Euro 1.6 million.

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6. Use of third parties assets

The item amounts to Euro 2,651 thousand (Euro 2,285 thousand at 31 December 2011) and mainly includes lease payments for property, office equipment and royalties for copyrights.

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7. Personnel expense

The item can be analyzed as follows:

	2012	2011
Wages and salaries	18,252	17,542
Social security contributions	5,244	4,934
Post-employment benefits	1,338	1,145
Other expense	22	9
Total personnel expense	**24,856**	**23,630**

The increase in personnel expense is related to the two new weeklies and includes approximately Euro 0.7 million also for editorial staff costs incurred in the pre-launch stage.

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8. Amortization, depreciation, provisions and impairment losses

These can be analyzed as follows:

	2012	2011
Amortization of intangible assets	501	459
Depreciation of property, plant and equipment	381	383
Allowance for impairment	1,782	2,438
Provisions for risk and charges	79	304
Total amortization, depreciation, provisions and impairment losses	**2,743**	**3,584**

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9. Other operating costs

These can be analyzed as follows:

	2012	2011
Deductible and non-deductible taxes during the year	262	148
Prior-year expenses	268	543
Other	416	389
Total other operating costs	**946**	**1,080**

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10. Loss on investments

The loss of Euro 1,461 thousand refers to the impairment loss on the investment in the associate Dmail Group, measured with the equity method, as illustrated below in Note 18.

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11. Net financial income

This item refers to financial income totaling Euro 1,872 thousand (Euro 1,444 thousand at 31 December 2011), net of financial expenses of Euro 126 thousand (Euro 117 thousand at 31 December 2011), analyzed as follows:

	2012	2011
Interest income on bank and postal accounts	1,838	1,411
Other	34	33
Total financial income	**1,872**	**1,444**
Bank interest expense	(3)	(3)
Other	(123)	(114)
Total financial expense	**(126)**	**(117)**
Net financial income	**1,746**	**1,327**

Interest income includes interest on fixed-term deposits in current accounts and on treasury bank accounts used to employ liquidity.

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12. Income tax

This item can be analyzed as follows:

	2012	2011
IRES for the year	7,414	10,854
IRAP for the year	2,055	2,408
Deferred tax income and expenses	471	(235)
Total current and deferred income tax	**9,940**	**13,027**

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:

	2012	2011
Pre-tax profit	**28,605**	**36,486**
Theoretical income tax charge (27.5%)	**7,866**	**10,034**
Permanent tax variations	19	585
Irap	2,055	2,408
Income tax	**9,940**	**13,027**

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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13. Loss from discontinued operations

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

	2012	2011
Other revenue and income	-	13
Services	(1)	(10)
Amortization, depreciation, provisions and impairment losses	-	(14)
Operating profit (EBIT)	**(1)**	**(11)**
Net financial income / (expense)	-	-
Loss before tax	**(1)**	**(11)**
Income tax	-	1
Loss from discontinued operations	**(1)**	**(10)**

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

	2012	2011
Net cash flow used in operating activities and the liquidation process	(18)	(17)
Net cash flow from (used in) financing activities	-	-
Net decrease for the year	**(18)**	**(17)**

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14. Segment reporting

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

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

- **publishing**, the Group operates as a publisher of magazines and books through its subsidiaries Cairo Editore, publisher of weeklies "Settimanale DIPIU'", "DIPIU' TV", "Diva e Donna", "TV Mia" and supplements "Settimanale DIPIU' e DIPIU'TV Cucina e Stellare", "Settimanale Nuovo" and "F", and monthlies "For Men Magazine", "Natural Style", "Bell'Italia", "Bell'Europa", "In Viaggio", "Airone", "Gardenia", "Arte" and "Antiquariato", and Cairo Publishing, publisher of books;

- **advertising**, managed by Cairo Communication and Cairo Pubblicità, which work together in advertising sales in print media for Cairo Editore and Editoriale Genesis ("Prima Comunicazione"), on TV for third-party publishers TIMedia (La7 and La7d), Sportitalia and Turner Broadcasting (Cartoon Network, Boomerang, and CNN), on the Internet and for the sale of stadium advertising spaces at the "Olimpico" football pitch in Turin for Torino FC;
- **Il Trovatore,** which manages its own search engine and provides technological services mainly within the Group.

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

2012	Publishing	Advertising	Trovatore	Unallocated operations	Eliminations	Total
Revenue	78,928	196,983	27	-	-	275,938
Inter-segment revenue	30,572	680	316	-	(31,568)	-
Other income	3,729	559	12	-	-	4,300
Change in inventories	(38)	-	-	-	-	(38)
Production cost	(77,571)	(146,413)	(297)	-	-	(224,281)
Inter-segment production cost	(841)	(30,702)	(25)		31,568	-
Personnel expense	(18,993)	(5,829)	(34)	-	-	(24,856)
Amortization, depreciation, provisions and impairment losses	(1,355)	(1,403)	15	-	-	(2,743)
Operating profit (EBIT)	**14,431**	**13,875**	**14**	-	-	**28,320**
Loss on investments	-	(1,461)	-	-	-	(1,461)
Net financial income/(expense)	205	1,542	(1)			1,746
Pre-tax profit	**14,636**	**13,956**	**13**	-	-	**28,605**
Income tax	(4,749)	(5,185)	(6)	-	-	(9,940)
Profit from continuing operations	**9,887**	**8,771**	**7**			**18,665**
Profit/(loss) from discontinued operations	-	-	-	(1)	-	(1)
Profit for the year	**9,887**	**8,771**	**7**	**(1)**	-	**18,664**
- Non-controlling interests	-	-	1	-	-	**1**

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

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

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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15. Earnings per share

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

	2012	2011
€ thousands		
Profit from continuing operations	18,665	23,459
Profit / (loss) from discontinued operations	(1)	(10)
Profit for the year	**18,664**	**23,449**
Weighted average number of outstanding shares at 31 December 2012	78,343,400	78,343,400
Weighted average number of treasury shares	(420,328)	(551,052)
Weighted average number of shares used in the calculation of earnings per share	**77,923,072**	**77,792,348**
€ thousands:		
Earnings per share attributable to continuing operations	0,240	0,302
Earnings / (loss) per share attributable to discontinued operations	(0,000)	(0,000)
Net earnings per share	0,240	0,302

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

NOTES TO THE STATEMENT OF FINANCIAL POSITION

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

16. Property, plant and equipment

The movements in PPE can be analyzed as follows:

	Property	Plant and machinery	Other assets	Total
Carrying amount at 31/12/2011	**1,406**	**185**	**1,133**	**2,724**
Additions	-	74	525	599
Disposals	-	-	-	-
Depreciation	(43)	(33)	(305)	(381)
Carrying amount at 31/12/2012	**1,363**	**226**	**1,353**	**2,942**

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17. Intangible assets

The movements in intangible assets can be analyzed as follows:

	Concessions, licenses and trademarks	Goodwill	Titles	Assets under constr.	Total
Carrying amount at 31/12/2011	**274**	**7,198**	**1,805**	**5**	**9,282**
Additions	321	-	-	5	326
Disposals	-	-	-	-	-
Depreciation	(237)	-	(264)		(501)
Carrying amount at 31/12/2012	**358**	**7,198**	**1,541**	**10**	**9,107**

Concessions, licenses and trademarks

At 31 December 2012, this item mainly regarded application software.

Goodwill

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

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

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

At 31 December 2012, 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 2012	Discount rate 2012	Growth rate of terminal values 2011	Discount rate 2011
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 2013.

Titles

Titles are made up as follows:

	Balance at 31/12/11	Additions	Amortization	Balance at 31/12/12
Bell’Italia	1,141	-	(164)	977
Bell’Europa	629	-	(88)	541
Other titles	35	-	(12)	23
Total	**1,805**	**-**	**(264)**	**1.541**

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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Investments and non-current financial assets

The movement in this item can be analyzed as follows:

(€ thousands)	Carrying amount at 31/12/2011	Write-ups	Effects of fair value measurement	Impairment losses	Carrying amount at 31/12/2012
Cairo Sport S.r.l.	10	-	-	-	10
Total subsidiaries	**10**	**-**	**-**	**-**	**10**
Dmail Group S.p.A.	1,461	-	(1,461)	-	-
Total associates	**1,461**	**-**	**(1,461)**	**-**	**-**
Other	11	-	-	-	11
Total other	**11**	**-**	-	-	**11**
Total	**1,482**	**-**	**(1,461)**	**-**	**21**

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.

The investment held in the listed company Dmail Group S.p.A. refers to n. 153,000 shares (post reverse stock split 1:5 on 11 July 2012), or 10% of the share capital.

At 31 December 2012, the associate recognized a loss in profit and loss, reflected in the measurement using the equity method.

The half-year report of Dmail Group at 30 June 2012 had shown a loss of Euro 11.2 million, inclusive of the impairment of intangible assets (goodwill) of Euro 6.5 million. Following this loss, the Dmail Group and Parent equity at 30 June 2012 came to a negative Euro 5.6 million and a negative Euro 6.6 million respectively. At its meeting on September 24, 2012, the Board of Directors resolved to file an application for a composition with creditors (blank option), a procedure under which it reserved to present a debt restructuring agreement.

The new Board of Directors of Dmail Group, appointed by the shareholders on 30 October 2012, subsequently sought to restructure the Group's debt through the restructuring agreement pursuant to art. 182 bis BL.

At 6 March 2013 (the time limit granted by the Court), the business plan approved on March 4 by the Board of Directors of Dmail Group S.p.A. was in the process of certification, pending an agreement with banks, pursuant to art. 182 bis BL.

DMail Group has also communicated:

- that a number of shareholders, in order to implement the business plan, confirmed in writing their commitment to recapitalize the Company up to Euro 13 million, in a meeting to be convened pursuant to art. 2446 and 2447 of the Italian Civil Code, subject to approval of the agreement pursuant to art. 182 bis BL,

- that it was informed that the shareholders SMALG (Antonio Percassi), Banfort (Gianluigi Viganò) and Niteroi S.r.l. (headed by the De Carolis family) reached an agreement with Rotosud S.p.A., under which Rotosud S.p.A. undertakes to subscribe part of the increase in capital, for a total of Euro 13.8 million envisaged by the certified business plan, subject, again, to approval of the agreement pursuant to art. 182 bis BL.

After the reporting date, 55,334 Dmail Group shares were sold for a total consideration of Euro 311 thousand. The investment in the company has thus dropped from 10% to 6,4%.
The key financial figures of Dmail Group, drawn from its interim management report at 30 September 2012 (the latest available at the date of preparation of these notes), gross of tax effects and excluding statement of financial position figures other than the net financial position, from the consolidated financial statements at 31 December 2011 and the consolidated interim report at 30 June 2012, are summarized in the following tables:

Income statement (€ thousands)	**9 months at 30 September 2012**	**6 months at 30 June 2012**	**12 months at 31 December 2011**
Revenue and other income	46,561	33,301	76,825
Net operating profit (loss) from continuing operations	(16,558)	(10,947)	(2,010)
Pre-tax profit (loss) from continuing operations	(18,288)	(12,022)	(4,160))
Profit (loss) from discontinued operations	Nd	(11,140)	(5,364)
Profit (loss) from assets held for sale	Nd	(12)	(3,958)
Profit (loss) for the year/period	Nd	(11,152)	(9,322)

Statement of financial position (€ thousands)	**30 June 2012**	**31 December 2011**
Non-current assets	29,752	35,169
Current assets	32,732	37,769
Current financial receivables	-	98
Cash	2,415	1,468
Total assets	**64,899**	**74,504**
Non-current borrowings and provisions	15,434	15,689
Non-current financial payables	1,471	1,645
Current financial payables	31,015	30,891
Other current payables	23,486	21,612
Equity attributable to the owners of the parent	(7,530)	3,475
Equity attributable to non-controlling interests	1,023	1,192
Total equity and liabilities	**64,899**	**74,504**

Net financial position (€ thousands)	30 September 2012	30 June 2012	31 December 2011
Cash	1,790	2,415	1,468
Current financial receivables	-	-	98
Non-current financial payables	(1,738)	(1,471)	(1,645)
Current financial payables	(31,101)	(31,015)	(30,891)
Total equity and liabilities	**(31,049)**	**(30,071)**	**(30,970)**

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19. Deferred tax assets

These refer to the recognition, in the financial statements at 31 December 2012, of deferred tax assets on the temporary differences between the carrying amounts of recognized assets and liabilities and their tax amounts, as follows.

	31/12/2012		31/12/2011	
	Temporary differences	Tax effect	Temporary differences	Tax effect
Deferred tax assets				
Taxed allowance for impairment	9,762	2,687	10,094	2,775
Tax losses carried forward	68	19	47	13
Taxed and returned provisions for risk and charges	1,070	332	1,002	311
Taxed provision for inventory write-down	592	186	741	233
Directors' fees	159	44	843	232
Consolidation entries for write-off of intra-group trade relations	407	128	818	257
Consolidation entries for transfer of the intra-group sale of titles	2,353	739	2,614	821
Other temporary differences	583	191	571	166
Total deferred tax assets	**14,994**	**4,326**	**16,730**	**4,808**
Deferred tax liabilities				
Different accounting treatment of post-employment benefits	(138)	(38)	(227)	(49)
Different accounting treatment of land depreciation	(86)	(25)	(86)	(25)
Total deferred tax liabilities	**(224)**	**(63)**	**(313)**	**(74)**
Net deferred tax assets	**14,770**	**4,263**	**16,417**	**4,734**

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

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20. Inventories

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

	31/12/12	31/12/11	Change
Raw materials, consumables and supplies	3.475	2.970	505
Work-in-progress and bordereau	153	238	(85)
Finished products and books	229	181	48
Total	**3.857**	**3.389**	**468**

Inventories are stated net of the provision for inventory write-down of Euro 866 thousand, reduced by Euro 184 thousand versus 31 December 2011 as a result of use over the period.

- Raw materials

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

- Work-in-progress

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

- Finished products

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

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21. Trade receivables

Trade receivables can be analyzed as follows:

	31/12/12	31/12/11	Change
Trade receivables	100,527	121,798	(21,271)
Allowance for impairment	(10,146)	(10,990)	844
Total trade receivables	**90,381**	**110,808**	**(20,427)**

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 2012 versus 31 December 2011 is as follows:

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**

31 December 2011	Current	Past due between 30 and 60 days	Past due between 61 and 90 days	Past due between 91 and 180 days	Past due over 180 days	Total
Trade receivables	100,967	2,395	1,415	2,369	14,652	121,798
Allowance for impairment	(890)	(249)	(263)	(275)	(9,313)	(10,990)
Net trade receivables	**100,077**	**2,146**	**1,152**	**2,094**	**5,339**	**110,808**

In terms of concentration, the top 10 customers represent roughly 14% (16% in 2011) of total advertising sales, whilst the top 100 customers represent 58% (57% in 2011). These ratios are basically in line with prior years.
The publishing segment presents a limited exposure to credit risk as publishing revenue is substantially generated by one sole party – the Group - whilst for distribution revenue, the distribution contract, which accounts for about 29% of net consolidated operating revenue, provides for an advance payment equal to a significant percentage of the estimated sales of each magazine.

In 2012, the allowance for impairment increased with accruals of Euro 1,782 thousand and was reduced for use over the period of Euro 2,626 thousand, with a net decrease of Euro 844 thousand.

Trade receivables include due from Torino Football Club S.p.A.: Euro 152 thousand to Cairo Pubblicità for contractual relations as described in Note 36, and Euro 360 thousand to Cairo Communication for administrative services provided and for various recharged expenses.

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22. Other receivables and other current assets

These can be analyzed as follows:

	31/12/12	31/12/11	Change
Prepaid IRAP	356	185	171
Tax assets	1,877	771	1,106
VAT credit	3,845	1,202	2,643
Total tax assets	**6,078**	**2,158**	**3,920**
One-off payment Sportitalia	1,000	1,500	(500)
Other prepayment	702	687	15
Other assets	397	454	(57)
Total other receivables and other current assets	**8,177**	**4,799**	**3,378**

"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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23. Securities and other current financial assets

At 31 December 2012, the Group held no securities or other current financial assets.

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24. Cash and cash equivalents

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

	31/12/12	31/12/11	Change
Bank and postal accounts	61,214	54,682	6,532
Cash	20	19	1
Total cash and cash equivalents	**61,234**	**54,701**	**6,533**

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

As shown in the statement of cash flows, the positive variation of the net financial position, amounting to approximately Euro 6.6 million, is mainly ascribable to the positive cash flows from operating activities netted against the distribution of ordinary and interim dividends of Euro 22 million.

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25. Equity

At 31 December 2012, consolidated equity was Euro 60,350 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.

In 2012:

- at their Meeting of 26 April 2012, the shareholders approved the distribution of a dividend of 0.30 Euro per share, inclusive of tax, of which Euro 0.15 already distributed as an interim dividend under the resolution adopted by the meeting of the Board of Directors held on 30 November 2011 for a total of Euro 11.7 million. The balance of the dividend, amounting to Euro 0.15 per share for a total of Euro 11.7 million, was distributed with detachment date on 7 May 2012 and made payable on 10 May 2012.
- at its meeting on 13 November 2012, the Board of Directors approved the distribution of an interim dividend for the 2012 financial year of Euro 0.13 per share (inclusive of tax), for a total of Euro 10.1 million, of which Euro 8.9 million had already been distributed at 31 December 2012.

The share capital at 31 December 2012 was Euro 4,074 thousand, subscribed and fully paid up, comprising 78,343,400 ordinary shares to which no nominal amount is attributed.

In accordance with the bylaws, the shares are registered, indivisible and freely transferable. They are object to the requirements of representation, legitimization, circulation of the company investment required for securities traded on regulated markets. Each share has the right to a proportion of the profit which has been approved for distribution and to a portion of equity on liquidation and also has the right to vote, without limits other than those as defined by the Law. No securities having special rights of control have been issued. No financial instruments have been issued attributing the right to subscribe to newly-issued shares. No share incentive plans are envisaged involving share capital increases, including bonus issues.

The reconciliation between the number of outstanding shares at 31 December 2012 and at 31 December 2011 is as follows:

	31/12/2011	**Purchase of treasury shares**	**Sale of treasury shares**	**31/12/2012**
Ordinary shares issued	78,343,400	-	-	78,343,400
Less: treasury shares	(371,327)	(79,452)	-	(450,779)
Ordinary outstanding shares	**77,972,073**	**(79,452)**	**-**	**77,892,621**

In 2012, as part of the share buy-back plans, 79,452 treasury shares were purchased. At 31 December 2012, Cairo Communication held a total of 450,779 treasury shares, or 0.575% of share capital, subject to art. 2357 ter of the Italian Civil Code.

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26. Post-employment benefits

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

COMPANY	Cairo Communication	Cairo Pubblicità	Cairo Editore	Cairo Pubblicità
TYPE OF VALUATION	**TFR**	**TFR**	**TFR**	**Agent termination benefits**
Mortality table	Sim/f 1998	Sim/f 1998	Sim/f 1998	Sim/f 1998
Reduction of mortality table	20.00%	20.00%	20.00%	20.00%
Advance request rate MANAGER	1.00%	0.50%	0.50%	-
Advance request rate JUNIOR MANAGER	2.00%	0.50%	2.00%	-
Advance request rate EMPLOYEE	2.00%	0.50%	2.00%	-
Advance request rate JOURNALIST	not present	not present	2.00%	
Salary increase rate MANAGER	5.00%	2.50%	0.00%	-
Salary increase rate JUNIOR MANAGER	4.00%	2.50%	0.00%	-
Salary increase rate EMPLOYEE	4.00%	2.50%	0.00%	-
Salary increase rate JOURNALIST	not present	not present	0.00%	
Fee increase rate AGENT	-	-	-	4,00%
Future inflation rate	2.00%	2.00%	2.00%	2.00%
Discount rate	3.59%	3.59%	3.59%	4.00%
Resignation rate MANAGER	2.00%	0.50%	0.00%	-
Resignation rate JUNIOR MANAGER	2.00%	0.50%	5.00%	-
Resignation rate EMPLOYEE	7.00%	2.50%	6.50%	-
Resignation rate JOURNALIST	not present	not present	5.00%	
Resignation rate AGENT	-	-	-	15,00%

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

	31/12/12	31/12/11
Opening balance	**3,898**	**3,891**
Increase	1,248	1,143
Profit (loss) from actuarial valuations	90	2
Utilization/other movements	(1,150)	(1,138)
Closing balance	**4,086**	**3,898**

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

	31/12/2012	31/12/2011	Average
Senior managers	14	14	14
Managers	20	20	20
Employees	132	136	134
Journalists and freelance	124	106	115
Total	**290**	**276**	**283**

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27. Non-current financial liabilities

The Group has none.

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28. Provisions for risks and charges

The provisions for risk and charges include:

	31/12/12	31/12/11	Change
Pension and similar provision	1,237	1,159	78
Provision for publishing returns	515	474	41
Provision for liquidation	84	101	(17)
Provision for other risks and charges	443	448	(5)
Total	**2,279**	**2,182**	**97**

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

	Pension and similar provision	Publishing returns	Liquidation	Other risks and charges	Total
Closing balance at 31/12/2011	**1,159**	**474**	**101**	**448**	**2,182**
Increases	79	515		-	594
Utilization	(1)	(474)	(17)	(5)	(497)
Closing balance at 31/12/2012	**1,237**	**515**	**84**	**443**	**2,279**

The provision for "pension and similar provisions" was accrued by Cairo Pubblicità S.p.A. in respect of the agents' termination benefits as prescribed by law and contracts, subject to actuarial valuations based on the assumptions illustrated in Note 26.

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

The “provision for liquidation” refers to provisions made to cover the liquidation costs of Diellesei S.r.l. in liquidation; the related provisions are recognized in profit / (loss) from discontinued operations.
The “provision for other risks and charges” includes provisions that are considered prudently necessary for charges that could arise from current legal proceedings and contractual disputes that remain unsettled.

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29. Current loans and borrowings

At 31 December 2012, there were no “loans and borrowings”.

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30. Trade payables

Trade payables amounted to Euro 104,932 thousand, decreasing by Euro 2,097 thousand versus 31 December 2011 and refer entirely to the current year. The portion related to Diellesei S.r.l. in liquidation amounted to Euro 68 thousand.
Trade payables include Euro 39 thousand due to the associate Torino Football Club S.p.A. for amounts accrued relating to the advertising concession contract signed with Cairo Pubblicità S.p.A.

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31. Receivables from and payables to the Parent

Receivables from and payables to the parent of Euro 4,699 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), to which Cairo Communication S.p.A. and its subsidiaries Cairo Editore S.p.A., Cairo Pubblicità S.p.A., Diellesei S.r.l. in liquidation, Cairo Due S.r.l. and Cairo Publishing S.r.l. agreed to adhere.

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32. Tax liabilities

Tax liabilities include:

	31/12/2012	31/12/2011	Change
Withholding taxes on employees	976	843	133
Withholding taxes on contract workers	471	387	84
IRAP payables	-	238	(238)
VAT payables	-	476	(476)
Other	4	61	(57)
Total tax liabilities	**1,451**	**2,005**	**(554)**

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33. Other current liabilities

These can be analyzed as follows:

	31/12/2012	31/12/2011	Change
Social security charges payables	1,862	1,855	7
Advances on subscriptions	1,913	1,867	46
Shareholders liabilities for dividends	1,262	1,456	(194)
Due to personnel (holidays, bonuses, etc.)	3,397	4,391	(994)
Accrued expenses and deferred income	349	369	(20)
Other liabilities	2,843	2,506	337
Total other current liabilities	**11,626**	**12,444**	**(818)**

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

"Other liabilities" include Euro 0.4 million (Euro 0.5 million at 31 December 2011) 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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34. Commitments and risks

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

- a bank surety of Euro 17.6 million, expiring on 15 June 2013 issued by Unicredit to Telecom Italia Media S.p.A. (Telecom Italia Group) securing payment of minimum guaranteed fees specified in its contract for the exclusive sale of television advertising space on La7;
- other sureties totaling Euro 327 thousand by banks.

35. Other information

The advertising concession contract regarding La7 sets minimum annual gross advertising revenue in 2013 of Euro 126 million, with minimum annual guaranteed fees for Telecom Italia Media of Euro 88.2 million (70%).

In December 2010, Telecom Italia Media and Cairo Communication agreed to revise the advertising concession contract of 19 November 2008. Specifically, for 2011 and for the 2012-2014 three-year period, both set additional annual advertising revenue targets (unguaranteed) with respect to the minimum annual revenue, proportional to the achievement by Telecom Italia Media of annual targets of share higher than the given 3% for La7's share. Cairo's achievement of these additional targets, or payment to Telecom Italia Media of equivalent dues, will entitle Cairo to renew the contract up to 31 December 2019. Otherwise, Telecom Italia Media is authorized to withdraw from the contract.

The contract regarding the La7d digital channel sets minimum gross advertising revenue in 2013 of Euro 8 million for a 0.2% share of the channel, with minimum guaranteed fees for Telecom Italia Media of Euro 5.6 million, paid as per contract on a monthly basis. A result higher or lower than the 0.2% share will produce a corresponding increase or decrease in minimum annual revenue and in the guaranteed minimum fee.

Starting from May 2012, Telecom Italia began the process for the possible sale of the investment held in Telecom Italia Media, that is, the possible separate disposal of TV activities (La7 and the MTV Italia Group) and network operator activities (TI Media Broadcasting) headed by the company.

In August 2012, Telecom Italia Media filed a judicial claim against Cairo Communication alleging certain breaches of the advertising concession contract relating to individual occurrences extremely immaterial under an economic standpoint, which are deemed by Cairo Communication totally groundless, and seeking compensation for the damages suffered as consequence of such breaches. Telecom Italia Media reserved the right to determine the amount of the damages during the proceedings.

After year-end 2012, Cairo Communication S.p.A. signed an agreement with Telecom Italia Media for the acquisition of the entire share capital of La7 S.r.l., excluding the investment held by La7 S.r.l. in MTV Italia S.r.l.

As part of the abovementioned transaction to acquire the entire share capital of La7 S.r.l. - the completion of which is currently subject to the authorizations pursuant to the current legislation - Telecom Italia Media and Cairo Communication signed a binding agreement envisaging, among other things, Telecom Italia Media's commitment to (i) file in early April 2013, formal acknowledgement of the discontinuance of action and request termination; (ii) at the date of execution of the acquisition agreement, to sign a waiver of the legal action and of any claim relating to the advertising concession contracts.

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 alleged 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.

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

In its hearing on 18 October 2010, the Provincial Tax Commission of Milan acknowledged the appeal filed by Cairo Editore S.p.A. regarding the assessment notice for tax year 2004, illustrated in the notes to the financial statements at 31 December 2010. The Italian Tax Authorities have filed an appeal with the Regional Tax Commission of Milan against the ruling. At the date of writing of these notes, the hearing

for the appeal has yet to be scheduled. Based also on the advice of its tax consultants, the Directors believe there are fundamental reasons and rights to oppose the relevant findings.

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

It is also noted that:

- the consolidated financial statements at 31 December 2012 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 2012 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 2012"). The Ultimate Parent of the Group is U.T. Communications S.p.A.
The Group holds investments in the subsidiary Cairo Sport (Euro 10 thousand) and in the associate Dmail Group (Euro 0 thousand).

The effects of these transactions on the 2012 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.	-	-	-	-
Jointly-controlled companies				
Torino FC S.p.A.	184	1,709	-	-
MP Service S.r.l.	-	-	-	-
Total	**184**	**1,709**	-	-

The effects of these relations on the consolidated statement of financial position of the Cairo Communication Group at 31 December 2012 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	-	4,638	-
Jointly-controlled companies				
Torino FC S.p.A.	512	-	-	-
MP Service S.r.l.	-	47	-	-
	573	**47**	**4,638**	-

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	-
Jointly-controlled companies				
Torino FC S.p.A.	39		-	-
Other				
Dividends to shareholders	-	1,262	-	-
Total	**39**	**1,262**	**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 2012, 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 2012 of Euro 1,574 thousand to the concession holder against total revenue of Euro 1,996 thousand, net of agency discounts. Cairo Pubblicità earned further commissions of Euro 60 thousand. As part of the advertising contract, Cairo Pubblicità also purchased football tickets worth Euro 35 thousand and recharged Torino F.C. pertaining costs of Euro 24 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 Due S.r.l. and Cairo Publishing S.r.l. adhered to the national tax consolidation scheme of UT Communications S.p.A. The consolidation scheme, which governs the financial aspects of amounts paid or received in return for the advantages or disadvantages resulting from the tax consolidation, specifically provides that any greater charges or minor benefits that may accrue to the Company resulting from adhesion to the scheme, be suitably remunerated by the parent. In relation to this, the consolidated financial statements at 31 December 2012 include receivables from and payables to the parent UT Communications S.p.A. of Euro 4,638 thousand and Euro 11 thousand respectively.

Fees paid to directors in 2012 are analyzed in Note 38 "*Board of Directors' and Board of Statutory Auditors' fees*"

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

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

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37. Risk management

Liquidity risk

The Cairo Communication Group is not exposed to liquidity risk, in that on one hand, significant financial resources are held with a net available positive financial position of Euro 61.2 million, whilst, on the other hand, the Group attempts to ensure that an appropriate ability to generate cash is maintained, even under the current market conditions.

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

It is Group policy to invest available cash in on-demand or very short-term bank deposits, properly spreading the investments, essentially in banking products, with the prime objective of maintaining a

ready liquidity of the said investments. Counterparties are selected on the basis of their credit rating, their reliability and the quality of the service rendered.

Currency and interest rate risks

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

The interest rate risk only affects the yield on available cash. Specifically, with reference to the net financial position at 31 December 2012, a one percentage point reduction in the interest rate would result in a reduction in annual financial income of approximately Euro 0.6 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 14% (16% in 2011) of total sales, whilst the top 100 customers represent 58% (57% in 2011). 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 - whilst for distribution revenue, the distribution contract provides for an advance payment equal to a significant percentage of the estimated sales of each magazine.

The Group's maximum theoretical exposure to credit risks at 31 December 2012 is given by the carrying amount of trade receivables and other recognized current assets totaling Euro 103.9 million (117.1 million at 31 December 2011), and by the nominal amount of guarantees given on third-party debts or commitments as indicated in Note 34.

The credit risks associated with cash and cash equivalents, with a maximum theoretical exposure of Euro 61.2 million (Euro 54.7 million at 31 December 2011), 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 2012, to Directors, Statutory Auditors, General Directors 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. 2012	31/12/2013	500	16	-	505
Uberto Fornara	CEO	Jan.-Dec. 2012	31/12/2013	175	4	-	405
Roberto Cairo	Director	Jan.-Dec. 2012	31/12/2013	20	-	-	-
Marco Janni	Director	Jan.-Dec. 2012	31/12/2013	34	-	-	-
Antonio Magnocavallo	Director	Jan.-Dec. 2012	31/12/2013	34	-	-	-
Marco Pompignoli	Director	Jan.-Dec. 2012	31/12/2013	110	4	-	295
Roberto Rezzonico	Director	Jan.-Dec. 2012	31/12/2013	40	-	-	-
Mauro Sala	Director	Jan.-Dec. 2012	31/12/2013	32	-	-	-
Key management personnel	N/A	Jan.-Dec. 2012	N/A	-	-	8	683
Marco Moroni	Chairman Board of Statutory Auditors	Jan.-Dec. 2012	31/12/2013	30	-	-	16
Mariapia Maspes	Standing auditor	Jan.-Dec. 2012	31/12/2013	20	-	-	10
Marco Giuliani	Standing auditor	Jan.-Dec. 2012	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 155 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 90 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 643 thousand (comprising gross remuneration as manager) and variable incentive components amounting to Euro 40 thousand.*

At its meeting of 26 April 2012, the shareholders of the Parent approved the 2012 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 12 March 2012.

At its meeting on 12 March 2012, the Board of Directors, on the proposal of the Remuneration Committee and the favourable opinion of the Related Party Committee, pursuant to art. 2389 paragraph 3 of the Italian Civil Code, resolved, for financial year 2012, for fees to Chairman Urbano Cairo, CEO Uberto Fornara, and Director Marco Pompignoli, who hold particular responsibilities, amounting respectively to Euro 480 thousand, Euro 60 thousand and Euro 90 thousand.

At its meeting on 10 May 2012, the Board of Directors, on the proposal of the Remuneration Committee and the favourable opinion of the Related Party Committee, pursuant to art. 2389 paragraph 3 of the Italian Civil Code, resolved for a variable fee mechanism for CEO Uberto Fornara, based mainly on advertising revenue growth targets, and on the curbing of main direct costs (such as dealing rights and commissions).

Under the decisions adopted by the Meeting on 10 May 2012, at its meeting on 14 February 2013, the Board of Directors, based on the 2012 final results, acknowledged a variable fee of Euro 95 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 subsidiaries and the directors for any fee in the event of resignation or unjust dismissal, or in the event their employment relationship ceases following a takeover bid;
- there are agreements in place between the 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 2012, 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.

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

39. Transactions deriving from atypical and/or unusual transactions

Pursuant to Consob Communication of 28 July 2006 n. DEM/6064296, we note that in 2012, as in 2011, Cairo Communication did not perform any atypical and/or unusual transactions as defined by the above Communication. Moreover, there are no cost and revenue components deriving from events or transactions which by their nature or size are considered non-recurring.

As mentioned earlier, after year-end 2012, Cairo Communication S.p.A. signed an agreement with Telecom Italia Media for the acquisition of the entire share capital of La7 S.r.l., excluding the investment held by La7 S.r.l. in MTV Italia S.r.l.
The completion of the transaction is currently subject to the authorizations prescribed by the current legislation.

For the Board of Directors

Chairman

Urbano Cairo

Cairo Communication S.p.A.
Consolidated Financial Statements at 31 December 2012 – 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 (*)
Cairo Due S.r.l.	Milan	47	100	31/12	Advertising	Full
Cairo Pubblicità S.p.A.	Milan	2,818	100	31/12	Advertising	Full
Cairo Publishing S.r.l.	Milan	10	100	31/12	Publishing	Full
Il Trovatore S.r.l.	Milan	25	80	31/12	Internet	Full
Edizioni Anabasi S.r.l.	Milan	10	99.95	31/12	Publishing	Full
DMail Group S.p.A.	Milan	15,300	10	31/12	E-commerce - Retail Publishing	Single line

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

APPENDIX

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

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

€ thousands	Services provided by	Fees for the year
Audit services		
Audit of separate financial statements, consolidated financial statements, regular checks on corporate bookkeeping and checks of minor companies	KPMG S.p.A.	69
Subsidiaries		
- Cairo Pubblicità S.p.A.	KPMG S.p.A.	35
- Cairo Editore S.p.A.	KPMG S.p.A.	59
Attestation services		
Parent company	KPMG S.p.A*	18

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

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

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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 2012, 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 3 April 2012 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 2012 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 2012, the results of its operations and its cash flows for the year then ended.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

Ancona Aosta Bari Bergamo Bologna Bolzano Brescia Cagliari Catania Como Firenze Genova Lecce Milano Napoli Novara Padova Palermo Parma Perugia Pescara Roma Torino Treviso Trieste Udine Varese Verona

Società per azioni
Capitale sociale
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R.E.A. Milano N. 512867
Partita IVA 00709600159
VAT number IT00709600159
Sede legale: Via Vittor Pisani, 25
20124 Milano MI ITALIA

KPMG

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 2012.

Milan, 5 April 2013

KPMG S.p.A.

(signed on the original)

Francesco Spadaro
Director

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

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

• the suitability of the characteristics of the Parent and

• the effective application of administrative and accounting procedures for the preparation of the 2012 consolidated financial statements.

2. We also confirm that

2.1 the consolidated financial statements at 31 December 2012:

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;

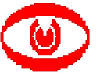
b) are consistent with the accounting records and books of the Company,

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, 19 March 2013

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 2012

Income statement for the year ended 2012

Euro	Notes	31 December 2012	31 December 2011
Revenue	1	137.098.994	140.487.266
Other revenue and income	2	133.175	260.844
Services	3	(124.547.285)	(126.176.301)
Use of third-party assets	3	(638.265)	(638.184)
Personnel expense	4	(2.749.962)	(2.773.199)
Amortization, depreciation, provisions and impairment losses	5	(213.079)	(218.226)
Other operating costs	3	(60.913)	(310.347)
Operating profit		**9.022.665**	**10.631.853**
Net financial income	6	1.283.763	951.918
Income (expense) from investments	7	14.241.240	11.673.787
Pre-tax profit		**24.547.668**	**23.257.558**
Income tax	8	(3.485.739)	(3.989.989)
Profit from continuing operations		**21.061.929**	**19.267.569**
Profit/loss from discontinued operations	9	0	(9.997)
Profit for the year		**21.061.929**	**19.257.572**

Statement of comprehensive income for the year ended 31 December 2012

	31 December 2012	31 December 2011
Profit for the year	21.061.929	19.257.572
Profit (loss) on measurement of available-for-sale financial assets	0	(7.650)
Total comprehensive income for the year	**21.061.929**	**19.249.922**

Statement of financial position

Euro Assets	Notes	31 December 2012	31 December 2011
Property, plant and equipment	10	519.675	375.508
Intangible assets	11	158.511	124.066
Investments	12	14.031.785	15.168.926
Receivables from subsidiaries	13	386.457	386.457
Other non-current financial assets	13	12.570	12.420
Deferred tax assets	14	488.277	805.773
Total non-current assets		**15.597.275**	**16.873.150**
Trade receivables	15	1.175.160	1.563.959
Receivables from parents	23	836.398	1.336.407
Receivables from subsidiaries	16	72.342.958	78.116.823
Other receivables and other current assets	17	3.916.363	2.286.229
Cash and cash equivalents	18	45.426.386	37.475.789
Total current assets		**123.697.265**	**120.779.207**
Total assets		**139.294.540**	**137.652.357**
Equity and liabilities		**31 December 2012**	**31 December 2011**
Share capital	19	4.073.857	4.073.857
Share premium reserve	19	44.153.763	48.287.813
Retained earnings	19	494.693	494.693
Other reserves	19	1.056.508	1.056.508
Treasury shares	19	(1.346.502)	(1.131.942)
Interim dividend	19	(10.126.041)	(11.695.811)
Profit for the year	19	21.061.929	19.257.572
Total equity		**59.368.207**	**60.342.690**
Post-employment benefits	20	858.539	760.918
Provisions for risks and charges	21	149.178	149.178
Total non-current liabilities		**1.007.717**	**910.096**
Trade payables	22	72.822.552	69.711.657
Payables to parents	24	2.172.179	2.085.621
Tax liabilities	25	260.542	212.308
Other current liabilities	26	3.663.343	4.389.985
Total current liabilities		**78.918.616**	**76.399.571**
Total liabilities		**79.926.333**	**77.309.667**
Total equity and liabilities		**139.294.540**	**137.652.357**

Statement of cash flows

€ thousands	2012	2011
CASH AND CASH EQUIVALENTS	**37.476**	**32.663**
OPERATING ACTIVITIES		
Profit for the year	21.062	19.258
Amortization, depreciation, provisions and impairment losses	213	218
Impairment losses on investments	1.439	765
Net financial income	(16.964)	(13.391)
Income tax	3.486	3.990
Change in post-employment benefits	98	93
Change in provisions for risks and charges	0	(20)
Cash flow from operating activities before changes in working capital	**9.333**	**10.913**
(Increase) decrease in trade and other receivables	4.533	14.227
Increase (decrease) in trade and other payables	1.206	3.200
(Increase) decrease in other assets	0	79
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	**15.072**	**28.419**
Income tax paid	(2.620)	(8.350)
Financial expense paid	(91)	(57)
TOTAL NET CASH FROM OPERATING ACTIVITIES (A)	**12.361**	**20.012**
INVESTING ACTIVITIES		
Acquisition (disposal) of PPE and intangible assets	(392)	(214)
Interest and financial income received	1.375	1.009
Dividends received	15.680	12.439
Net increase in other non-current assets	(301)	0
NET CASH USED IN INVESTING ACTIVITIES (B)	**16.362**	**13.234**
FINANCING ACTIVITIES		
(Acquisition) disposal of treasury shares	(214)	1.200
Dividends paid	(20.559)	(29.633)
NET CASH USED IN FINANCING ACTIVITIES (C)	**(20.773)**	**(28.433)**
NET CASH FLOW OF THE YEAR (A) + (B) + (C)	**7.950**	**4.813**
CLOSING CASH AND CASH EQUIVALENTS	**45.426**	**37.476**

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
€ thousands									
Balance at 31 December 2009	**4.074**	**53.357**	**2.724**	**1.057**	**(2.351)**	**(428)**	**0**	**11.940**	**70.373**
Allocation of profit			11.940					(11.940)	0
Dividend distribution shareholders' meeting approval of financial statements at 31/12/2009		(3.575)	(11.940)						(15.515)
Gains/(losses) from available-for-sale financial assets						(1.775)			(1.775)
Profit for the year								17.899	17.899
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**

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

Euro	2012	Related parties (*)	% of total	2011	Related parties	% of total
Revenue	137.098.994	137.055.816	100,0%	140.487.266	140.447.287	100,0%
Other revenue and income	133.175			260.844		
Services	(124.547.285)	(107.600)	0,1%	(126.176.301)	(113.324)	0,1%
Use of third-party assets	(638.265)			(638.184)		
Personnel expense	(2.749.962)			(2.773.199)		
Amortization, depreciation, provisions and impai	(213.079)	(27.326)	12,8%	(218.226)	(47.299)	21,7%
Other operating costs	(60.913)			(310.347)		
Operating profit	**9.022.665**			**10.631.853**		
Net financial income	1.283.763	2.048	0,2%	951.918	2.784	0,3%
Income (loss) from investments	14.241.240	14.241.240	100,0%	11.673.787	11.673.787	100,0%
Pre-tax profit	**24.547.668**			**23.257.558**		
Income tax	(3.485.739)			(3.989.989)		
Profit from continuing operations	**21.061.929**			**19.267.569**		
Profit (loss) from discontinued operations	0			(9.997)	(9.997)	100,0%
Profit for the year	**21.061.929**			**19.257.572**		

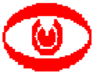
(*) Related party transactions are analyzed in Note 28

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

Euro Assets	31 December 2012	Related parties (*)	% of total	31 December 2011	Related parties (*)	% of total
Property, plant and equipment	519.675	17.580	3,4%	375.508	36.906	9,8%
Intangible assets	158.511	-	0,0%	124.066	8.000	6,4%
Investments	14.031.785	14.031.785	100,0%	15.168.926	15.168.926	100,0%
Receivables from subsidiaries	386.457	386.457	100,0%	386.457	386.457	100,0%
Non-current financial assets	12.570			12.420		
Deferred tax assets	488.277			805.773		
Total non-current assets	**15.597.275**			**16.873.150**		
Trade receivables	1.175.160	360.300	30,7%	1.563.959	239.300	15,3%
Receivables from parents	836.398	836.398	100,0%	1.336.407	1.336.407	100,0%
Receivables from subsidiaries	72.342.958	72.342.958	100,0%	78.116.823	78.116.823	100,0%
Other receivables and other current assets	3.916.363			2.286.229		
Cash and cash equivalents	45.426.386			37.475.789		
Total current assets	**123.697.265**			**120.779.207**		
Total assets	**139.294.540**			**137.652.357**		
Equity and liabilities	**31 December 2012**			**31 December 2011**		
Share capital	4.073.857			4.073.857		
Share premium reserve	44.153.763			48.287.813		
Retained earnings	494.693			494.693		
Other reserves	1.056.508			1.056.508		
Treasury shares	(1.346.502)			(1.131.942)		
Interim dividend	(10.126.041)			(11.695.811)		
Profit for the year	21.061.929			19.257.572		
Total equity	**59.368.207**			**60.342.690**		
Post-employment benefits	858.539			760.918		
Provisions for risks and charges	149.178	149.178	100,0%	149.178	149.178	100,0%
Total non-current liabilities	**1.007.717**			**910.096**		
Trade payables	72.822.552	16.553		69.711.657	16.553	0,0%
Payables to parents	2.172.179	2.172.179	100,0%	2.085.621	2.085.621	100,0%
Tax liabilities	260.542			212.308		
Other current liabilities	3.663.343	1.261.650	34,4%	4.389.985	1.455.750	33,2%
Total current liabilities	**78.918.616**			**76.399.571**		
Total liabilities	**79.926.333**			**77.309.667**		
Total equity and liabilities	**139.294.540**			**137.652.357**		

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

€ thousands	31 December 2012	Related parties	31 December 2011	Related parties
CASH AND CASH EQUIVALENTS	**37.476**		**32.663**	
OPERATING ACTIVITIES				
Profit for the year	21.062	151.164	19.258	151.953
Amortization, depreciation, provisions and impairment losses	213	27	218	47
Impairment losses on investments	1.439	1.439	765	765
Net financial income	(16.964)	(15.682)	(13.391)	(12.442)
Income tax	3.486		3.990	
Change in post-employment benefits	98		93	
Change in provisions for risks and charges	0		(20)	(20)
Cash flow from operating activities before changes in working capital	**9.333**	**136.948**	**10.913**	**140.303**
(Increase) decrease in trade and other receivables	4.533	6.153	14.227	6.063
Increase (decrease) in trade and other payables	1.206	(108)	3.200	(9.624)
(Increase) decrease in other assets	0		79	
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	**15.072**	**142.993**	**28.419**	**136.742**
Income tax paid	(2.620)		(8.350)	
Financial expense paid	(91)		(57)	
TOTAL NET CASH FROM OPERATING ACTIVITIES (A)	**12.361**	**142.993**	**20.012**	**136.742**
INVESTING ACTIVITIES				
(Acquisition) disposal of PPE and intangible assets	(392)		(214)	
Interest and financial income received	1.375	2	1.009	
Dividends received	15.680	15.680	12.439	12.439
Net increase in other non-current assets	(301)	(301)	0	
NET CASH USED IN INVESTING ACTIVITIES (B)	**16.362**	**15.381**	**13.234**	**12.439**
FINANCING ACTIVITIES				
(Acquisition) disposal of treasury shares	(214)		1.200	
Dividends paid	(20.559)		(29.633)	
NET CASH USED IN FINANCING ACTIVITIES (C)	**(20.773)**	**0**	**(28.433)**	**0**
CASH FLOW OF THE YEAR (A)+(B)+(C)	**7.950**	**158.374**	**4.813**	**149.180**
CLOSING CASH AND CASH EQUIVALENTS	**45.426**		**37.476**	



NOTES TO THE SEPARATE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2012

Main activities

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

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

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

Figures are shown in thousands of Euro.

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

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

As the Parent, Cairo Communication S.p.A has also prepared the consolidated financial statements of the Cairo Communication Group at 31 December 2012.

Basis of preparation

Structure, form and content of the financial statements

The separate financial statements of Cairo Communication S.p.A. at 31 December 2012 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 2012;

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

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

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

Financial statements schedules

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

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

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

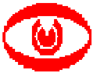
- profit and loss that could be directly recognized in equity (for instance, actuarial losses from the measurement of defined benefit plans)
- the effects of the measurement of derivative instruments hedging future cash flows,
- the effects of the measurement of available-for-sale financial assets",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

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

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

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

The **statement of cash flows** has been prepared applying the indirect method in which operating performance is adjusted to reflect transactions of a non-monetary nature, for whatever deferral or



accrual of previous or future operating receipts or payments and for revenue or cost components connected to cash flows arising from investing or 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 payable are recognized and on an accruals basis.
- Dividends are recognized only as from when the shareholders' right to the dividend payment has been established, and only when resulting from a profit distribution following the acquisition of the investment; in the case, however, of a profit distribution prior to the acquisition of their relevant shares, such dividends are treated as a reduction in the cost of the relevant investment.
- The recharges of costs incurred on behalf of third parties are recognized as a reduction in the cost to which they relate.
- 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, Cairo Due S.r.l. and Cairo Publishing S.r.l. have adhered to the national tax consolidation scheme of UT Communications S.p.A. pursuant to art.117/129 of the Consolidated Income Tax Act (TUIR).

The consolidation scheme, which regulates economic aspects pertaining to the sums deposited or calculated against the advantages or disadvantages arising from the national tax consolidation scheme, also allows for any increased costs or decreased benefits incurred by the Companies, by adhering to this procedure, to be repaid by the Parent U.T. Communications S.p.A.

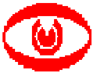
UT Communications S.p.A. acts as the tax parent and determines a single taxable base for the group of companies that adheres to the national tax consolidation scheme, which thereby benefits from the ability of offsetting taxable profits against taxable losses in one tax return.

Each company that adheres to the national tax consolidation scheme transfers its taxable profit and loss to the tax parent. For any such taxable profit reported by a subsidiary, UT Communications S.p.A. 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. The resulting gains and losses are recognized in the income statement.

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.

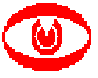
To determine an asset's value in use, the Company calculates the present value of future estimated cash flows, inclusive of tax, by applying a pre-tax discount rate which reflects the current market valuation of the time value of money and the specific risks inherent to the asset.

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.
Currents assets and liabilities
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 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.

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

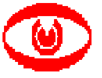
Treasury shares are recognized as a reduction in equity. The effects of any subsequent transactions are also recognized directly in equity.

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

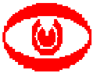
In this context, the persisting uncertainty factors in the short and medium economic term, which make it hard to predict a return to normal market conditions, have led to the need to make assumptions regarding future performance which are influenced by significant uncertainty, and the possibility of 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 impairment

The allowance for impairment reflects Management's estimate regarding the losses on portfolio of receivables from end customers. The allowance is estimated based on the losses expected by the Company, based upon past experience for similar receivable, current and past due dates, losses and receipts arising from the careful monitoring of receivables management and from projections on market and economic conditions. The persisting uncertainty factors in the short and medium economic term, along with the resulting credit squeeze, could result in 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 2012, 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 2013 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 notes 28 and 30. Reference is made to the Directors' Report regarding operational and business risks.

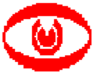
Accounting standards, amendments and interpretations applied from 1° January 2012

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 2012:

- Amendment to IFRS 7 – Financial instruments: improved disclosures – The amendment, issued by IASB in October 2010 and approved by the European Commission in November 2011, aims to improve the understanding of transfers of financial assets and the possible effects arising from risks associated with the continuing involvement of the entity that has transferred such assets. The amendment requires further information in the event significant transfer transactions are undertaken around the end of the year. The adoption of this amendment produced no significant effects to the information presented in this Financial Report.
- Amendment to IAS 1 – Presentation of financial statements – The amendment, issued by IASB in June 2011, is applicable as from 1° July 2012 and requires entities to group items presented in OCI (Other Comprehensive Income) into categories, based on whether they can be potentially re-classifiable or less to profit or loss subsequently.

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

- Amendment to IAS 19 – *Employee benefits* – The amendment, issued by IASB in June 2011, is applicable as from 1° January 2013. It eliminates the option of deferring recognition of actuarial gains and losses via the corridor approach, requiring presentation, in the statement of financial position, of the fund's deficit or surplus and recognition in the profit and loss of cost components relating to service and net financial expense, and recognition of actuarial gains and losses stemming from re-measurement of liabilities and assets among Other income (expense). In addition, the return on assets included in net financial expense must be calculated on the basis of the discount rate for liabilities and no longer on the basis of the rate of return expected for assets. The amendment requires further information to provide in the explanatory notes.
- IFRS 12 – *Improved disclosure on interests in other entities* – The standard, issued by IASB in May 2011, is applicable as from 1° January 2013. It specifically envisages improved disclosure to be provided on all types of interests, including those in



subsidiaries, joint arrangements, associates, special purpose entities and other unconsolidated special purpose vehicles.

- IFRS 11 – *Joint arrangements* – The standard, issued by IASB in May 2011, which will replace IAS 31 – Interests in Joint Ventures and SIC 13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers, is applicable as from 1° January 2013. The standard provides criteria for the identification of joint arrangements based on the rights and obligations arising from such arrangements rather than on their legal form, and establishes the equity method as the sole method of accounting for joint ventures in consolidated financial statements.
- IAS 27 – *Separate financial statements* – Following the issue of IFRS 10 in May 2011, IASB has limited the scope of application of IAS 27 solely to the separate financial statements. The standard specifically regulates the accounting treatment of equity investments in separate financial statements and is effective as from 1° January 2013.
- IAS 28 – *Investments in associates and joint ventures* – Following the issue of IFRS 11 in May 2011, IASB amended the existing standard to include investments in joint ventures in its scope of application and to set out the requirements for application of the equity method when accounting for reductions in investments. The standard is applicable as from 1° January 2013.
- Amendment to IAS 32 – *Financial instruments: presentation* – In December 2011, IASB issued amendments to IAS 32 - Financial Instruments: Presentation, to clarify the application of certain criteria for offsetting financial assets against financial liabilities. The amendments are retrospectively applicable to annual periods beginning on or after 1° January 2014.
- Amendment to IFRS 7 – *Financial instruments: improved disclosures* – In December 2011, IASB issued amendments to IFRS 7 – Financial instruments: improved disclosure. The amendment requires disclosures about the effect or potential effect of offsetting of financial assets against financial liabilities on an entity's financial position. The amendments are applicable to the annual periods beginning on or after 1 January 2013 and to interim periods following such date. Disclosure is to be provided retrospectively.
- Amendment to IFRS 1 – *First-time adoption* of *International Financial Reporting Standards* – The amendment issued by IASB in December 2010 cancels reference to the date of 1 January 2004 it contained and described as the date of transition to IAS/IFRS and provides guidance on the presentation of the financial statements in compliance with IFRS following a period of severe hyperinflation.
- Amendment to IAS 12 – *Income tax* – The amendment, issued by IASB in December 2010, introduces the presumption that recovery of the carrying amount of an investment property

will normally be through sale unless there is clear evidence that it will be recovered through use. The presumption will be applied to investment property, plants and machinery, intangible assets recognized or re-valued at fair value. Following these amendments the interpretation SIC 21 Income tax – recovery of re-valued non-depreciable assets – will be repealed.

- IFRS 13 –*Fair value measurement* – The standard, issued by IASB in May 2011, is applicable as from 1° January 2013. The standard defines fair value, clarifies how it is determined and introduces standardized disclosure for items valued at fair value. The standard is applicable to all types of transactions or balances for which another standard requires or allows fair value.

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

- IFRS 9 - *Financial instruments* – The standard, issued by IASB in November 2009 and amended in October 2010, is the opening part of a process that aims to overhaul IAS 39. It is applicable as from 1° January 2015.
- *Improvements to IFRSs: 2009-2011 Cycle*: on 17 May 2012, IASB issued a set of amendments to the IFRS which will be applicable retrospectively as from 1° January 2013, summarized below:
  - *IFRS 1 First-Time Adoption of International Financial Statements* - Repeated application: it clarifies that if an entity has applied IAS/IFRS in the past, has stopped applying IAS/IFRS and then returns to applying IAS/IFRS, the entity must re-apply IFRS 1. Moreover, regarding – Capitalized financial charges – it clarifies that if an entity has incurred and capitalized financial charges directly attributable to the acquisition, construction or manufacturing of an asset capitalized using local accounting standards, the amount can be maintained at the date of transition to IAS/IFRS; from the date of transition to IAS/IFRS the capitalization of financial charges will follow the rules set out by IAS 23 Borrowing Costs.
  - *IAS 1 Presentation of Financial Statements* - Comparative information: it clarifies that when additional comparative information is provided, it must be presented in accordance with IAS/IFRS. It also clarifies that when an entity changes an accounting policy or makes a retrospective restatement/reclassification, the entity should present a balance sheet at the beginning of the comparative period ("third balance sheet" in the financial statements), while no comparative information is required in the supporting notes for the "third balance sheet", apart from the items concerned.

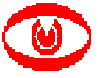
- *IAS 16 Property, Plant & Equipment* - Classification of servicing equipment: it clarifies that servicing equipment must be classified in Property, plant and equipment if used for more than one financial year, in inventories if used for one financial year.
- *IAS 32 Financial Instruments: Presentation* - The tax effect of distributions to equity holders and of transaction costs of equity instruments: it clarifies that direct tax related to this specific case follows the rules of IAS 12.
- *IAS 34 Interim Financial Reporting* - Total assets for a reportable segment: it clarifies that total assets need to be disclosed if the amounts are regularly provided to the chief operating decision maker of the entity, and there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements.

- *Draft "Hedge accounting - Chapter 6 of IFRS 9 Financial Instruments"* - Issued by IASB on 7 September 2012. The document seeks to address the remarks raised against the requirements set out by IAS 39 for the application of hedge accounting, considered too stringent and inappropriate. The new elements bring significant changes to the types of transactions eligible for hedge accounting, changes to forward contracts and options accounting when they are included in a hedge accounting relationship, and changes to the effectiveness test, replaced by the principle of "economic relationship" between hedge item and hedging instrument; moreover, a retrospective effectiveness assessment is no longer required for hedging relationships. Further information is however required on an entity's risk management strategy.

NOTES TO THE INCOME STATEMENT

1. Revenue

Revenue was Euro 137,099 thousand (Euro 140,487 thousand in 2011). Its composition, versus 2011, is shown below:



Revenue € thousands	2012	2011
Print media advertising space sales	42	39
Cairo Pubblicità TV sub-concession	131,259	134,867
Cairo Pubblicità print media sub-concession	897	1,023
Cairo Pubblicità Web sub-concession	1,299	956
Group services	3,502	3,502
Other revenue from associates	100	100
Total	**137,099**	**140,487**

Revenue is realized exclusively in Italy and an analysis by geographical area is pointless.

In 2012 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.

Specifically, in 2012 advertising sales generated by Cairo Pubblicità on La7 (Euro 161.9 million) dropped by 3.4% versus 2011, outstripping the general TV advertising market by approximately 12 percentage points (-15.3%), confirming the highly positive results achieved in the past four years. In fact, taking the 2009-2012 four-year period into consideration, figures show that, against an overall drop of -19% suffered by the TV advertising market, advertising sales on La7 increased by approximately 43.8%, when in the same period, the channel's average share moved up from 3.08% in 2008 to 3.45% in 2012 (+12%).

In 2012, operating revenue included the sub-concession fees billed to the subsidiary Cairo Pubblicità S.p.A.

- for TV advertising sales, amounting to Euro 131,259 thousand,
- Internet advertising sales, amounting to Euro 1,299 thousand,
- print media advertising sales on “Prima Comunicazione” and “Uomini e comunicazione” of Editoriale Genesis S.r.l., amounting to Euro 897 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)	2012	2011
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 were Euro 133 thousand (Euro 261 thousand in 2011) and refer mainly to prior-year income.

3. Services, use of third-party assets and other operating costs

Costs for services were Euro 124,547 thousand (Euro 126,176 thousand in 2011). Such costs are detailed as follows versus 2011:

Services (€ thousands)	2012	2011
Publishers' fees	930	1,053
TV publishing fees	119,025	120,401
Web publishing fees	1,183	847
Consultancies and collaborations	768	541
Cairo Communication Board of Directors' fees	945	1,556
Cairo Communication Board of Auditors' fees	70	58
Other administration and general expenses	1,626	1,720
Total	**124,547**	**126,176**

The decrease in "Publishers fees" is ascribable to the decrease in TV advertising revenue.

Use of third-party assets amounted to Euro 638 thousand (Euro 638 thousand in 2011) and refer mainly to lease payments for property and office equipment.

Other operating costs amounted to Euro 61 thousand (Euro 310 thousand in 2011) and refer to prior-year expense of Euro 11 thousand and other costs of Euro 50 thousand.

4. Personnel expense

This item can be analyzed as follows:

Personnel expense (€ thousands)	**2012**	**2011**
Wages and salaries	1,916	1,945
Social security contributions	674	721
Other expense	16	3
Post-employment benefits	144	104
Total	**2,750**	**2,773**

5. Amortization, depreciation, provisions and impairment losses

These can be analyzed as follows:

Amortization, depreciation, provisions and impairment losses (€ thousands)	**2012**	**2011**
Amortization of intangible assets	90	80
Depreciation of property, plant and equipment	123	138
Total	**213**	**218**

6. Net financial income

Net financial income was Euro 1,284 thousand (Euro 952 thousand in 2011) and is broken down as follows:

Net financial income (€ thousands)	**2012**	**2011**
Interest income on bank accounts	1,373	1,007
Interest income from Cairo Publishing	2	3
Other	-	26
Total financial income	**1,375**	**1,036**
Interest and other financial expense	(91)	(84)
Total financial expense	**(91)**	**(84)**
Net financial income	**1,284**	**952**

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7. Income/ (losses) from investments

This item mainly includes:

- dividends received during the year from the subsidiaries Cairo Pubblicità S.p.A. (Euro 4,684 thousand) and Cairo Editore S.p.A. (Euro 10,996 thousand),
- Euro 1,139 thousand, for the impairment loss on the investment in Dmail Group, as illustrated in Note 12,
- Euro 300 thousand for impairment of the investment in the subsidiary Cairo Publishing S.r.l.

At 31 December 2011, the item mainly included dividends received from the subsidiaries Cairo Pubblicità S.p.A. (Euro 2,273 thousand) and Cairo Editore S.p.A. (Euro 10,166 thousand).

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8. Income tax

Income tax for the year amounted to Euro 3,486 thousand (Euro 3,990 thousand in 2011). In accordance with IFRS, the deferred tax assets, relating mainly to the accrual of provisions whose fiscal deductibility is deferred, were recognized.

Tax (€ thousands)	**2012**	**2011**
Current tax		
Ires	2,703	3,326
Irap	465	565
Deferred tax assets	318	99
Total	**3,486**	**3,990**

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

	2012	**2011**
Pre-tax profit	**25,548**	**23,258**
Theoretical income tax charge (27.5%)	**7,026**	**6,396**
Tax effects of dividends received	(4,096)	(3,250)
Tax effects of other permanent differences	91	279
Irap	465	565
Current and deferred income tax for the year	**3,486**	**3,990**

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 2012, equal to 27.5%.

As the chart shows, the lower income tax in 2012 is ascribable to the sharp increase in dividends received (Euro 15.7 million versus Euro 12.4 million in 2011), 5% of which are subject to income tax.

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9 . Loss from discontinued operations

At 31 December 2011, this included the allocation of Euro 10 thousand for the loss of the year incurred by the subsidiary Diellesei S.r.l. in liquidation. At 31 December 2012, the item was equivalent to zero.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

10. Property, plant and equipment

At 31 December 2012, this item amounted to Euro 520 thousand, increasing by Euro 144 thousand on 31 December 2011. Movements can be broken down as follows:

	Historical cost	Revaluation	Accumulated depreciation	Carrying amount 31/12/2011	Net change	Carrying amount 31/12/2012
Motor vehicles	472	0	(330)	142	(31)	111
Furniture and fittings	337	0	(188)	149	37	186
Communication equipment	74	0	(69)	5	1	6
Electronic office equipment	973	0	(901)	72	93	165
Plant (various)	124	0	(121)	3	(1)	2
Mobile phones	22	0	(17)	5	2	7
Leasehold improvements	192	0	(192)	-	43	43
Total other assets	**2,194**	**0**	**(1,818)**	**376**	**144**	**520**

The net change in the year is broken down as follows:

	Additions	Disposals	Depreciation	Net change
Motor vehicles	-	-	(31)	(31)
Furniture and fittings	54	-	(17)	37
Communication equipment	3	-	(2)	1
Electronic office equipment	149	-	(56)	93
Plant (various)	-	-	(1)	(1)
Mobile phones	4	-	(2)	2
Leasehold improvements	57	-	(14)	43
Total	**267**	**-**	**(123)**	**144**

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 2012, intangible assets amounted to Euro 159 thousand, increasing by Euro 35 thousand on 31 December 2011. Their movements during the year are as follows:

(€ thousands)	Historical cost	Accumulated depreciation	Carrying amount at 31/12/2011	Net change	Carrying amount at 31/12/2012
Software, licenses and trademarks	2,366	(2,256)	110	37	147
Total concessions, licenses and trademarks	**2,366**	**(2,256)**	**110**	**37**	**147**
Website design costs	169	(161)	8	(8)	-
Assets under development	6	-	6	6	12
Total other	**175**	**(161)**	**14**	**(2)**	**12**
Total intangible assets	**2,541**	**(2,417)**	**124**	**35**	**159**

The net change in the year is broken down as follows:

(€ thousands)	Additions	Disposals	Amortization	Net change
Software	119	-	(82)	37
Total concessions, licenses and trademarks	**119**	**-**	**(82)**	**37**
Website design costs	-	-	(8)	(8)
Assets under development	6	-	-	6
Total other	**6**	**-**	**-**	**(2)**
Total intangible assets	**125**	**-**	**(90)**	**35**

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 2012, investments amounted to Euro 14,031 thousand, decreasing by Euro 1,138 thousand on 31 December 2011.

(€ thousands)	Carrying amount at 31/12/2011	Reclassifications	Value increases (decreases)	Carrying amount at 31/12/2012
Diellesei S.r.l. in liquidation	0	-	-	0
Cairo Sport S.r.l.	11	-	1	12
Cairo Due S.r.l.	132	-	-	132
Il Trovatore S.r.l.	357	-	-	357
Cairo Editore S.p.A.	6,273	-	-	6,273
Cairo Publishing S.r.l.	1,595	(300)	300	1,595
Cairo Pubblicità S.p.A.	5,340	-	-	5,340
Total subsidiaries	**13,708**	**(300)**	**301**	**13,709**
Dmail Group S.p.A.	**1,461**	**(1,139)**	**-**	**322**
Total associates	**1,461**	**(1,139)**	**-**	**322**
Total investments	**15,169**	**(1,439)**	**301**	**14,031**

Subsidiaries

In 2012, the liquidation of the subsidiary Diellesei continued, which generated a loss of Euro 1 thousand. The net deficit of the company is covered by the provision for investment risks at 31 December 2012.

In 2012, in the share capital account to cover accrued and accruing losses, the company waived interest-bearing loans of Euro 300 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 2012 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.

(€ thousands)	Equity 31/12/2012 (*)	Ownership %	Equity method (*) (a)	Carrying amount (b)	Difference (a-b)
Cairo Editore S.p.A.	11,857	99.95%	22,841	6,273	16,658
Cairo Due S.r.l.	96	100%	95	132	(37)
Il Trovatore S.r.l.	29	80%	180	357	(177)
Cairo Pubblicità S.p.A.	7,398	100%	9,714	5,340	4,374
Diellesei S.r.l. in liquidation	(152)	60%	(152)	(152)	-
Cairo Publishing S.r.l.	81	100%	81	1,595	(1,514)
Cairo Sport S.r.l.	11	100%	12	12	-

(*) Amount determined under IAS/IFRS

The carrying amount of the investments in Cairo Due S.r.l., Il Trovatore S.r.l. and Cairo Publishing S.r.l. is higher than the amount obtained using the equity method, respectively by Euro 37 thousand, Euro 177 thousand and Euro 1,514 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:

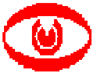
- three-year budget period,
- a growth rate of 1% to extrapolate the cash flows beyond the current budget period,
- a weighted average cost of capital (*wacc*) of 10.5% considered consistent with the company's industry.

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.

<u>Associate</u>

The investment held in the listed company Dmail Group S.p.A. refers to n. 153,000 shares (post reverse stock split 1:5 on 11 July 2012), or 10% of the share capital.

At 31 December 2012, the associate recognized a loss in profit and loss, reflected in the measurement.



The half-year report of Dmail Group at 30 June 2012 had shown a loss of Euro 11.2 million, inclusive of the impairment of intangible assets (goodwill) of Euro 6.5 million. Following this loss, the Dmail Group and Parent equity at 30 June 2012 came to a negative Euro 5.6 million and a negative Euro 6.6 million respectively. At its meeting on September 24, 2012, the Board of Directors resolved to file an application for a composition with creditors (blank option), a procedure under which it reserved to present a debt restructuring agreement.

The new Board of Directors of Dmail Group, appointed by the shareholders on 30 October 2012, subsequently sought to restructure the Group's debt through the restructuring agreement pursuant to art. 182 bis BL.

At 6 March 2013 (the time limit granted by the Court), the business plan approved on March 4 by the Board of Directors of Dmail Group S.p.A. was in the process of certification, pending an agreement with banks, pursuant to art. 182 bis BL

DMail Group has also communicated:

- that a number of shareholders, in order to implement the business plan, confirmed in writing their commitment to recapitalize the Company up to Euro 13 million, in a meeting to be convened pursuant to art. 2446 and 2447 of the Italian Civil Code, subject to approval of the agreement pursuant to art. 182 bis BL,
- that it was informed that the shareholders SMALG (Antonio Percassi), Banfort (Gianluigi Viganò) and Niteroi S.r.l. (headed by the De Carolis family) reached an agreement with Rotosud S.p.A., under which Rotosud S.p.A. undertakes to subscribe part of the increase in capital, for a total of Euro 13.8 million envisaged by the certified business plan, subject, again, to approval of the agreement pursuant to art. 182 bis BL.

At 31 December 2012, the stock exchange price was Euro 2.11 per share.

Owing to the share’s performance and the associate’s results, and taking into account the measurement under the equity method made in the consolidated financial statements of Cairo Communication as at and for the year ended 31 December 2012, for the preparation of these financial statements, the recoverable amount, net of impairment losses, was considered equal to the stock price at the year-end date of 31 December 2012. As a result of this measurement, the investment in Dmail Group was written down to adjust it to its "recoverable amount", equal to Euro 1,139 thousand, with an offsetting entry to the income statement. The residual amount recognized at 31 December 2012 is therefore equal to Euro 322 thousand.

After the reporting date, 55,334 Dmail Group shares were sold for a total consideration of Euro 311 thousand. The investment in the company has thus dropped from 10% to 6,4%.

The key financial figures of Dmail Group, taken from its interim management report at 30 September 2012 (the latest available at the date of preparation of these notes), gross of tax effects

and excluding statement of financial position figures other than the net financial position, from the consolidated financial statements at 31 December 2011 and the consolidated interim report at 30 June 2012, are summarized in the following tables:

Income statement (€ thousands)	**9 months at 30 September 2012**	**6 months at 30 June 2012**	**12 months at 31 December 2011**
Revenue and other income	46,561	33,301	76,825
Net operating profit (loss) from continuing operations	(16,558)	(10,947)	(2,010)
Pre-tax profit (loss) from continuing operations	(18,288)	(12,022)	(4,160))
Profit (loss) from discontinued operations	Nd	(11,140)	(5,364)
Profit (loss) from assets held for sale	Nd	(12)	(3,958)
Profit (loss) for the year/period	Nd	(11,152)	(9,322)

Statement of financial position (€ thousands)	**30 June 2012**	**31 December 2011**
Non-current assets	29,752	35,169
Current assets	32,732	37,769
Current financial receivables	-	98
Cash	2,415	1,468
Total assets	**64,899**	**74,504**
Non-current borrowings and provisions	15,434	15,689
Non-current financial payables	1,471	1,645
Current financial payables	31,015	30,891
Other current payables	23,486	21,612
Equity attributable to the owners of the parent	(7,530)	3,475
Equity attributable to non-controlling interests	1,023	1,192
Total equity and liabilities	**64,899**	**74,504**

Net financial position (€ thousands)	**30 September 2012**	**30 June 2012**	**31 December 2011**
Cash	1,790	2,415	1,468
Current financial receivables	-	-	98
Non-current financial payables	(1,738)	(1,471)	(1,645)
Current financial payables	(31,101)	(31,015)	(30,891)
Total equity and liabilities	**(31,049)**	**(30,071)**	**(30,970)**

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13. Receivables from subsidiaries and other non-current financial assets

Receivables from subsidiaries

The item refers to a non-interest-bearing shareholder loan made to the subsidiary Cairo Due S.r.l., amounting to Euro 386 thousand (unchanged on 31 December 2011).

Other non-current financial assets

At 31 December 2012, non-current financial assets - mainly guarantee deposits - amounted to Euro 13 thousand (Euro 12 thousand versus 31 December 2011).

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14. Deferred tax assets

At 31 December 2012, deferred tax assets amounted to Euro 488 thousand (Euro 806 thousand at 31 December 2011). These assets can be analyzed as follows:

	31/12/12		31/12/11	
Deferred tax assets (€ thousands)	**Temporary differences**	**Tax effect**	**Temporary differences**	**Tax effect**
Taxed allowance for impairment	1,579	434	2,190	602
Other temporary differences	272	54	736	204
Total deferred tax assets	**1,851**	**488**	**2,926**	**806**

Deferred tax assets relate to the recognition at 31 December 2012 of deferred tax assets on the temporary differences between the carrying amount of recognized assets and liabilities and their tax values.

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

15. Trade receivables

Trade receivables amounted to Euro 1,175 thousand, decreasing by Euro 389 thousand on 31 December 2011. These are broken down as follows:

Trade receivables (€ thousands)	**31/12/12**	**31/12/11**	**Change**
Trade receivables	2,754	3,704	(950)
Allowance for impairment	(1,579)	(2,140)	561
Total trade receivables	**1,175**	**1,564**	**(389)**

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 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**

31 December 2011 (€ thousands)	Current	Past due between 30 and 60 days	Past due between 61 and 90 days	Past due between 91 and 180 days	Past due over 180 days	Total
Trade receivables	131	-	-	30	3,543	3,704
Allowance for impairment	-	-	-	-	(2,140)	(2,140)
Net trade receivables	**131**	**-**	**-**	**30**	**1,403**	**1,564**

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 amount to Euro 72,343 thousand, decreasing by Euro 5,774 thousand on 31 December 2011. They include:

Receivables from subsidiaries (€ thousands)	31/12/12	31/12/11	Change
Cairo Due S.r.l.	58	58	-
Cairo Editore S.p.A.	739	712	27
Il Trovatore S.r.l.	337	311	26
Cairo Publishing S.r.l.	140	238	(98)
Cairo Pubblicità S.p.A.	71,069	76,798	(5,729)
Total receivables from subsidiaries	**72,343**	**78,117**	**(5,774)**

Receivables from Cairo Pubblicità S.p.A. (Euro 68,861 thousand at 31 December 2012) are mainly receivables on the sub-concession contracts.

Other trade receivables from Cairo Pubblicità S.p.A., as those from Il Trovatore S.r.l. and Cairo Due S.r.l., are mainly referable to centralized services provided by Cairo Communication S.p.A. to Group companies. These services are provided through annual contracts renewable year by year.

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17. Other receivables and other current assets

These amount to Euro 3,916 thousand, increasing by Euro 1,631 thousand versus 31 December 2011, and can be analyzed as follows:

Other receivables and other current assets (€ thousands)	31/12/12	31/12/11	Change
VAT credit	2,280	1,097	1,183
Prepaid IRAP	100	169	(69)
Receivables from others	1,208	814	394
Prepayments and accrued income	328	205	123
Total other receivables and other current assets	**3,916**	**2,285**	**1,631**

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 assets** and amounts to Euro 45,426 thousand, increasing by Euro 7,950 thousand versus 2011. It can be analyzed as follows:

Cash and cash equivalents (€ thousands)	31/12/12	31/12/11	Change
Bank and postal accounts	45,420	37,470	7,950
Cash	6	6	-
Total	**45,426**	**37,476**	**7,950**

Cash and cash equivalents continued to be managed prudently.

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19. Equity

At 31 December 2012, equity was Euro 59,368 thousand, decreasing by Euro 975 thousand on 31 December 2011, as a result of the distribution of the 2011 interim dividend resolved by the Shareholders' Meeting of 26 April 2012 (Euro 11,696 thousand), of the distribution of the 2012 interim dividend resolved by the Shareholders' Meeting of 14 November 2012 (Euro 10,126 thousand), of profit for the year (Euro 21,062 thousand) and of the purchase of treasury shares (Euro 214 thousand).

In 2012:

- at their Meeting on 26 April 2012, the shareholders approved the distribution of a dividend of 0.30 Euro per share, inclusive of tax, of which Euro 0.15 already distributed as an interim dividend under the resolution adopted by the meeting of the Board of Directors held on 30 November 2011. The balance of the dividend, amounting to Euro 0.15 per share for a total of Euro 11.7 million, was distributed with detachment date on 7 May 2012 and made payable on 10 May 2012.
- at its meeting on 13 November 2012, the Board of Directors approved the distribution of an interim dividend for the 2012 financial year of Euro 0.13 per share (inclusive of tax), for a total of Euro 10.1 million, of which Euro 8.9 million had already been distributed at 31 December 2012.

Share capital

The share capital at 31 December 2012 was Euro 4,074 thousand, subscribed and fully paid up, comprising 78,343,400 ordinary shares to which no nominal amount is attributed.

In accordance with the bylaws the shares are registered, indivisible and freely transferable. They are subject to the requirements of representation, legitimization, circulation of the company investment required for securities traded on regulated markets.

Each share has the right to a proportion of the profit which has been approved for distribution and to

a portion of equity on liquidation and also has the right to vote, without limits other than those defined by the Law.

No securities having special rights of control have been issued.

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

No share incentive plans are foreseen involving share capital increases, including bonus issues.

The reconciliation between the number of shares outstanding at 31 December 2012 and those at 31 December 2011 is as follows:

	31/12/2011	Purchase of treasury shares	Disposal of treasury shares	31/12/2012
Ordinary shares issued	78,343,400	-	-	78,343,400
Less: treasury shares	(371,326)	(79,452)	-	(450,778)
Ordinary shares outstanding	**77,972,074**	**(79,452)**	**-**	**77,892,622**

Share premium reserve

At 31 December 2012, the share premium reserve amounted to Euro 44,154 thousand.

Retained earnings

At 31 December 2012, 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)	**31/12/2012**	**31/12/2011**
Retained earnings	1,807	1,807
Retained earnings– "first-time adoption" reserve	(1,313)	(1,313)
Total	**494**	**494**

Other reserves

At 31 December 2012, other reserves, amounting to Euro 1,057 thousand, unchanged on the prior year, are broken are down as follows:

Other reserves (€ thousands)	31/12/2012	31/12/2011
Legal reserve	815	815
Negative goodwill	225	225
Other reserves	17	17
Total	**1,057**	**1,057**

Treasury shares reserve

At 31 December 2012, Cairo Communication held n.450,779 treasury shares, or 0.575% of the share capital, subject to art. 2357 ter of the Italian Civil Code, for a value of Euro 1,346 thousand deducted from equity.

At their meeting on 26 April 2012, after revoking a similar resolution adopted on 28 April 2011, the Shareholders approved the proposal to acquire and dispose of treasury shares in accordance with art. 2357 and subsequent articles of the Italian Civil Code, for the purpose of stabilizing the Company share price and sustaining liquidity, and, if deemed necessary by the Board of Directors, of establishing a "shares stock" as provided in Consob regulation 16839/2009. The Board was authorized to acquire treasury shares up to the maximum number permitted by law, for a period of 18 months from the date of authorization, by use of available reserves, including the share premium reserve, as resulting from the last approved annual financial statements. Specifically, the Board of Directors will be authorized to acquire treasury shares on one or more occasions, acquiring shares directly on the market and through authorized intermediary – in accordance with the procedures provided by art. 144 bis, paragraph 1, letter b of the Issuer Regulation and relevant Instructions – and, in case such operations are carried out, according to accepted market practices, pursuant to the regulations introduced by Consob Resolution No. 16839/2009. Minimum and maximum acquisition prices per share are set at an amount equal to the average official purchase price of the share on Borsa Italiana S.p.A. for the 15 working days preceding the purchase respectively reduced or increased by 20%, in any event within a maximum limit of Euro 6.5 per share. In case such operations are carried out in accordance with accepted market practices pursuant to Consob Resolution no. 16839/2009, the purchase of treasury shares is subject to further limits, including price limits, provided for thereto. The proposal of the Board also allows for the authorization to sell, on one or more occasions, any acquired treasury shares, setting the minimum sale price per share no lower than the minimum price calculated following the criteria adopted for their purchase. Should the treasury shares be sold in accordance with accepted market practices pursuant to Consob Resolution 16839/2009, the sale of treasury shares shall be subject to further limits, including price limits, provided for thereto.

In 2012, as part of the share buy-back plans, 79 thousand treasury shares were purchased (or 0.101% of the share capital), equivalent to a total value of Euro 214 thousand.

Interim dividend for 2012

As mentioned earlier, at its meeting on 13 November 2012, the Board of Directors approved the distribution of an interim dividend for 2012 amounting to Euro 0.13 per share (inclusive of tax), for a total of Euro 10.1 million, of which Euro 8.9 million had already been distributed at 31 December 2012.

.*.*.

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	(1,346)	---	---	---	---
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)
Interim dividend 2012	(10,126)	---	(10,126)	---	---
Total	**38,307**		**34,764**		**(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 21,062 thousand (Euro 19,258 thousand at 31 December 2011).

20. Post-employment benefits

This item amounted to Euro 859 thousand, with a net increase by Euro 98 thousand versus 2011. The composition and movement of the item is shown as follows:

	Balance at 31/12/2011	Paid during the year	Accrued during the year	Balance at 31/12/2012
Employees	333	(9)	52	376
Senior managers	428	-	55	483
Total	**761**	**(9)**	**107**	**859**

Post-employment benefits reflect allocations made for all employees at the reporting date, made in accordance with art. 2120 of the Italian Civil Code. The liability so determined does not vary significantly from the liability that would result from an actuarial valuation.
The change in the composition of personnel during the year is summarized as follows:

	Headcount at the beginning of the year	Changes	Headcount at year-end	Average headcount
Senior managers	7	-	7	7
Managers	2	-	2	2
Employees	18	-	18	18
Total	**27**	**-**	**27**	**27**

.*.*.

21. Provisions for risks and charges

Provisions for risks and charges amounted to Euro 149 thousand, unchanged on 2011.

Provisions for risks and charges (€ thousands)	**Balance at 31/12/2011**	**Utilized**	**Released**	**Accrued**	**Balance at 31/12/2012**
Risks on investments	149				149
Total	**149**				**149**

As mentioned earlier, the provision for risks on investments refers entirely to Diellesei S.r.l. in liquidation, accrued during 2005/2006 as a result of the subsidiary's net deficit.

.*.*.

22. Trade payables

Trade payables amounted to Euro 72,823 thousand, increasing by Euro 3,111 thousand versus 31 December 2011.

23. Receivables from and payables to parents

Receivables from parents, amounted to Euro 836 thousand, decreasing by Euro 500 thousand versus 31 December 2011. Euro 775 thousand refer 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, Cairo Due S.r.l. and Cairo Publishing S.r.l. have adhered to the national tax consolidation scheme of UT Communications S.p.A.

The consolidation scheme, which governs the financial aspects of amounts paid or received in return for the advantages or disadvantages resulting from the tax consolidation, specifically provides that any greater charges or minor benefits that may accrue to the company resulting from adhesion to the procedure, be suitably remunerated by the Parent.

24. Payable to subsidiaries

Payables to subsidiaries amounted to Euro 2,172 thousand, decreasing by Euro 86 thousand on 31 December 2011. 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)	**31/12/12**	**31/12/11**	**Change**
Cairo Due S.r.l.	38	38	-
Cairo Pubblicità S.p.A.	1,980	1,886	94
Cairo Publishing S.r.l.	6	6	-
Il Trovatore S.r.l.	148	156	(8)
Total payables to subsidiaries	**2,172**	**2,086**	**86**

25. Tax liabilities

Tax liabilities amounted to Euro 261 thousand, decreasing by Euro 49 thousand versus 31 December 2011. They are broken down as follows:

Tax liabilities (€ thousands)	**31/12/12**	**31/12/11**	**Change**
Withholding taxes on employees	217	196	21
Withholding taxes on contract workers	44	16	28
Total tax liabilities	**261**	**212**	**49**

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 3,663 thousand, decreasing by Euro 727 thousand versus 31 December 2011. They are broken down as follows:

Other current liabilities (€ thousands)	**31/12/2012**	**31/12/2011**	**Change**
Social security charges payable	190	203	(13)
Shareholder liability for dividends to be distributed	1,262	1,456	(194)
Other liabilities	1,631	2,118	(487)
Deferred income	580	613	(33)
Total other current liabilities	**3,663**	**4,390**	**(727)**

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" refers 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, expiring on 15 June 2013 issued by Unicredit to Telecom Italia Media S.p.A. (Telecom Italia Group) securing payment of minimum guaranteed fees specified in its 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 advertising concession contract regarding La7 sets minimum annual gross advertising revenue in 2013 of Euro 126 million, with minimum annual guaranteed fees for Telecom Italia Media of Euro 88.2 million (70%).

In December 2010, Telecom Italia Media and Cairo Communication agreed to revise the advertising concession contract of 19 November 2008. Specifically, for 2011 and for the 2012-2014 three-year period, both set additional annual advertising revenue targets (unguaranteed) with respect to the minimum annual revenue, proportional to the achievement by Telecom Italia Media of annual targets of share higher than the given 3% for La7's share. Cairo's achievement of these additional targets, or payment to Telecom Italia Media of equivalent dues, will entitle Cairo to renew the contract up to 31 December 2019. Otherwise, Telecom Italia Media is authorized to withdraw from the contract.

The contract regarding the La7d digital channel sets minimum gross advertising revenue in 2013 of Euro 8 million for a 0.2% share of the channel, with minimum guaranteed fees for Telecom Italia Media of Euro 5.6 million, paid as per contract on a monthly basis. A result higher or lower than the 0.2% share will produce a corresponding increase or decrease in minimum annual revenue and in the guaranteed minimum fee.

Starting from May 2012, Telecom Italia began the process for the possible sale of the investment held in Telecom Italia Media, that is, the possible separate disposal of TV activities (La7 and the MTV Italia Group) and network operator activities (TI Media Broadcasting) headed by the company.

In August 2012, Telecom Italia Media filed a judicial claim against Cairo Communication alleging certain breaches of the advertising concession contract relating to individual occurrences extremely immaterial under an economic standpoint, which are deemed by Cairo Communication totally groundless, and seeking compensation for the damages suffered as consequence of such breaches. Telecom Italia Media reserved the right to determine the amount of the damages during the proceedings.

After year-end 2012, Cairo Communication S.p.A. signed an agreement with Telecom Italia Media for the acquisition of the entire share capital of La7 S.r.l., excluding the investment held by La7 S.r.l. in MTV Italia S.r.l.

As part of the abovementioned transaction to acquire the entire share capital of La7 S.r.l. - the completion of which is currently subject to the authorizations pursuant to the current legislation - Telecom Italia Media and Cairo Communication signed a binding agreement envisaging, among other things, Telecom Italia Media's commitment to (i) file in early April 2013, formal acknowledgement of the discontinuance of action and request termination; (ii) at the date of execution of the acquisition agreement, to sign a waiver of the legal action and of any claim relating to the advertising concession contracts.

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 alleged 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.

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.

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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	775	-	-
Subsidiaries of Cairo Communication Group				
Cairo Pubblicità S.p.A.	71,069	-	-	-
Cairo Editore S.p.A.	739	-	-	-
Cairo Due S.r.l.	58	-	-	386
Cairo Publishing S.r.l.	40	-	-	100
Il Trovatore S.r.l.	337	-	-	-
Associates of UT Communications Group				
Torino FC S.p.A.	360	-	-	-
Total	**72,664**	**775**	**-**	**486**

Payables and 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.	1,980	-	-	-
Cairo Editore S.p.A.	-	-	-	-
Cairo Due S.r.l.	38	-	-	-
Cairo Publishing S.r.l.	6	-	-	-
Il Trovatore S.r.l.	148	-	-	-
Associates of UT Communications Group				
Torino FC S.p.A.	17	-	-	-
Total	**2,189**	**-**	**-**	**-**

“Other liabilities” include payables for dividends to distribute to the majority shareholder, amounting to Euro 1,262 thousand.

Income and expense (Euro/000)	Operating revenue	Operating cost	Financial income	Financial expense	(Expense)/ Income from investments
Parent UT Communications	-	-	-	-	-
Subsidiaries Cairo Communication Group					
Cairo Pubblicità S.p.A.	136,454	-	-	-	4,684
Cairo Editore S.p.A.	480	-	-	-	10,996
Cairo Publishing S.r.l.	-		2	-	-
Il Trovatore S.r.l.	22	(108)	-	-	-
Associates					
DMail Group S.p.A.	-	-	-	-	(1,139)
Associates of UT Communications Group					
Torino FC S.p.A.	100	-	-	-	-
Total	**137,056**	**(108)**	**2**	**-**	**14,541**

“Income (expense) from investments” includes dividends received from the subsidiaries Cairo Editore and Cairo Pubblicità, amounting to Euro 15,680 thousand, net of the impairment loss of the investment in DMail Group, amounting to Euro 1,139 thousand.

Specifically, income and expense in relation to subsidiaries can be analyzed as follows:

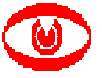
income and expense (Euro/000)	Cairo Editore	Cairo Pubblicità	Cairo Publishing	Diellesei in liquidation	Il Trovatore	Torino FC
INCOME						
Sub-concession payment	-	133,454	-	-	-	-
Administrative services and use of serviced space	480	3,000	-	-	22	100
Recharged costs	-	-	-	-	-	-
Sale of advertising space	-	-	-	-	-	-
Interest income	-	-	2	-	-	-
Dividends	10,996	4,684	-	-	-	-
Total	**11,476**	**141,138**	**2**	**-**	**22**	**100**

	Cairo Editore	Cairo Pubblicità	Cairo Publishing	Diellesei in liquidation	Il Trovatore	Torino FC
EXPENSE						
Internet services	-	-	-	-	(108)	-
Total	**-**	**-**	**-**	**-**	**(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 2012 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 2012, there were no transactions with the parent (U.T. Communications) or with subsidiaries of the latter, except for the contract with Torino F.C. for the provision of administrative services such as bookkeeping; the agreement sets an annual fee of Euro 100 thousand.

As mentioned earlier, Cairo Communication and its subsidiaries Cairo Editore S.p.A., Cairo Pubblicità S.p.A., Diellesei S.r.l. in liquidation, Cairo Due S.r.l. and Cairo Publishing S.r.l. have adhered to the national tax consolidation scheme of U.T. Communications S.p.A.

Fees paid to the directors in 2012 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.

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".

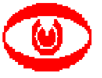
29. Risk management

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 45.4 million whilst on the other, it attempts to ensure that an appropriate ability to generate cash is maintained, even under the current market conditions.

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

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



Currency and interest rate risks

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

The interest rate risk only affects the yield on available cash. Specifically, with reference to the net financial position at 31 December 2012, a one percentage point reduction in the interest rate would result in a reduction in annual financial income of approximately Euro 0.5 million.

Movements in the cash 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

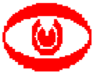
The following information refers to the 2012 fees paid to Directors, Statutory Auditors, General Directors and key management personnel, also in subsidiaries, analyzed in detail in the Remuneration Report, prepared pursuant to art. 123 ter of the TUF:

Name	Position	Term of office	Term expiry date	Fees	Benefits in kind	Bonuses and other incentives	Other fees**
Urbano R. Cairo	Chairman BoD	Jan.-Dec. 2012	31/12/2013	500	16	-	505
Uberto Fornara	CEO	Jan.-Dec. 2012	31/12/2013	175	4	-	405
Roberto Cairo	Director	Jan.-Dec. 2012	31/12/2013	20	-	-	-
Marco Janni	Director	Jan.-Dec. 2012	31/12/2013	34	-	-	-
Antonio Magnocavallo	Director	Jan.-Dec. 2012	31/12/2013	34	-	-	-
Marco Pompignoli	Director	Jan.-Dec. 2012	31/12/2013	110	4	-	295
Robero Rezzonico	Director	Jan.-Dec. 2012	31/12/2013	40	-	-	-
Mauro Sala	Director	Jan.-Dec. 2012	31/12/2013	32	-	-	-
Key management personnel	N/A	Jan.-Dec. 2012	N/A	-		8	683
Marco Moroni	Chairman Board of Statutory Auditors	Jan.-Dec. 2012	31/12/2013	30	-	-	16
Mariapia Maspes	Standing auditor	Jan.-Dec. 2012	31/12/2013	20	-	-	10
Marco Giuliani	Standing auditor	Jan.-Dec. 2012	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 155 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 90 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 643 thousand (comprising gross remuneration as manager) and variable incentive components amounting to Euro 40 thousand.*

At their meeting on 26 April 2012, the shareholders approved the 2012 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 12 March 2012.

At its meeting on 12 March 2012, the Board of Directors, on the proposal of the Remuneration Committee and the favourable opinion of the Related Party Committee, pursuant to art. 2389 paragraph 3 of the Italian Civil Code, resolved, for financial year 2012, for fees to Chairman Urbano Cairo, CEO Uberto Fornara, and Director Marco Pompignoli, who hold particular responsibilities, amounting respectively to Euro 480 thousand, Euro 60 thousand and Euro 90 thousand.

At its meeting on 10 May 2012, the Board of Directors, on the proposal of the Remuneration Committee and the favourable opinion of the Related Party Committee, pursuant to art. 2389 paragraph 3 of the Italian Civil Code, resolved for a variable fee mechanism for CEO Uberto Fornara, based mainly on advertising revenue growth targets, and on the curbing of main direct costs (such as dealing rights and commissions).

Under the decisions adopted by the meeting on 10 May 2012, at its meeting on 14 February 2013, the Board of Directors, based on the 2012 final results, acknowledged a variable fee of Euro 95 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:

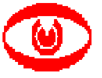
- there are no agreements in place between the Company and the directors for any fee in the event of resignation or unjust dismissal, or in the event their employment relationship ceases following a takeover bid;
- there are agreements in place between the Company and Uberto Fornara, subject to non-competition commitments in the year following termination of his employment with the Company, for payment of a gross monthly fee of 150% solely of the gross monthly salary in his capacity as manager, which will become effective upon termination of his relationship.

Moreover, there are no succession plans regarding executive directors.

At 31 December 2012, 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.

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



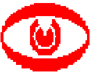
31. Transactions deriving from atypical and/or unusual transactions

Pursuant to Consob Communication of 28 July 2006 n. DEM/6064296, we note that in 2012, as in 2011, Cairo Communication did not perform any atypical and/or unusual transactions as defined by the above Communication. Moreover, there are no cost and revenue components deriving from events or transactions which by their nature or size are considered non-recurring.

As mentioned earlier, after year-end 2012, Cairo Communication S.p.A. signed an agreement with Telecom Italia Media for the acquisition of the entire share capital of La7 S.r.l., excluding the investment held by La7 S.r.l. in MTV Italia S.r.l.

The completion of the transaction is currently subject to the authorizations prescribed by the current legislation.

For the Board of Directors
Chairman
Urbano Cairo



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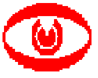


ANNEX 1 - LIST OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

SUBSIDIARIES:

Company name:	**Cairo Editore S.p.A.**
Registered office:	Milan – Corso Magenta, 55
Share capital:	1,043,256
Equity at 31/12/2011:	13,665,073
Profit for 2011:	11,000,567
Equity as per draft financial statements at 31/12/2012:	11,823,172
Profit as per draft financial statements at 31/12/2012:	9,158,666
Ownership:	99.95%

Company name:	**Cairo Due S.r.l.**
Registered office:	Milan – Via Tucidide, 56
Quota capital:	46,800
Equity at 31/12/2011:	86,789
Loss for 2011:	(3,668)
Equity as per draft financial statements at 31/12/2012:	96,270
Profit as per draft financial statements at 31/12/2012:	9,482
Ownership:	100%

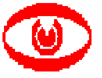
Company name:	**Il Trovatore S.r.l.**
Registered office:	Milan – Via Tucidide, 56
Share capital:	25,000
Equity at 31/12/2011:	31,838
Profit for 2011:	4,285
Equity as per draft financial statements at 31/12/2012:	25,005
Loss as per draft financial statements at 31/12/2012:	(6,833)
Ownership:	80%

Company name:	**Cairo Pubblicità S.p.A.**
Registered office:	Milano – Via Tucidide, 56
Share capital:	2,818,400
Equity at 31/12/2011:	8,679,964
Profit for 2011	4,684,371
Equity as per draft financial statements at 31/12/2012:	7,397,612
Profit as per draft financial statements at 31/12/2012:	3,402,019
Ownership:	100%

Company name:	**Diellesei S.r.l. in liquidation**
Registered office:	Milan – Via Tucidide, 56
Quota capital:	10,000
Net deficit at 31/12/2011:	(151,405)
Loss for 2011:	(9,997)
Net deficit as per draft financial statements at 31/12/2012:	(152,309)
Loss as per draft financial statements at 31/12/2012:	(904)
Ownership	60%

Company name:	**Cairo Publishing S.r.l.**
Registered office:	Milano – Corso Magenta, 55
Share capital:	10,000
Equity at 31/12/2011:	67,750
Loss for 2011:	(248,818)
Equity as per draft financial statements at 31/12/2012:	80,697
Loss as per draft financial statements at 31/12/2012:	(287,053)
Ownership:	100%

Company name:	**Cairo Sport S.r.l.**
Registered office:	Milano – Via Tucidide, 56
Share capital:	10,400
Equity at 31/12/2011:	9,221
Loss for 2011:	(1,179)
Ownership:	100%



INDIRECT SUBSIDIARIES

Company name:	**Edizioni Anabasi S.r.l.**
Registered office:	Milano – Corso Magenta, 55
Share capital:	10,200
Equity at 31/12/2011:	7,442
Loss for 2011:	(2,891)
Equity as per draft financial statements at 31/12/2012:	9,268
Loss as per draft financial statements at 31/12/2012:	(1,174)
Ownership:	100%

ANNEX 2

Summary figures of draft financial statements of subsidiaries in the advertising segment, il Trovatore and discontinued operations at 31 December 2012.

	Cairo Pubblicità	Cairo Due	Il Trovatore	Cairo Sport	Diellesei in liquidazione
	Financial statements at 31.12.12	Financial statements at 31.12.12	Financial statements at 31.12.12	Financial statements at 31.12.12	Financial statements at 31.12.12
Assets					
A Share capital proceeds to be received	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
Financial fixed assets	1.827	0	3.873	0	
Total non-current assets	**1.023.802**	**0**	**4.553**	**0**	**0**
C) Inventory	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**	**578.532**	**421.077**	**9.815**	**169.302**
D) Prepayments and accrued income	105.828	58	484	0	354
Total assets	**99.883.245**	**578.590**	**426.114**	**9.815**	**169.656**
Liabilities					
A) Share capital	2.818.400	46.800	25.000	10.400	10.000
Income - related and other reserves	1.167.468	10.429	2.674	0	0
Shareholders' contributions to cover losses	9.394	20.945	0	0	30.000
Retained earnings/(losses carried forward)	331	8.614	4.164	0	(191.405)
Net profit 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) Employees' leaving entitlement	849.167	0	8.147	0	0
D) Payables	90.234.384	483.569	392.962	916	237.672
E) Accrued expenses and deferred income	164.800	0	0	0	0
Total equity and liabilities	**99.883.245**	**578.590**	**426.114**	**9.815**	**169.656**
Income statement					
A) Production revenue	197.520.689	0	355.177	0	0
B) Production cost	(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 / (expenses)	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 3

Summary figures of draft financial statements of subsidiaries in the publishing segment at 31 December 2012.

	Cairo Editore	Cairo Publishing	Edizioni Anabasi
	Financial statements at 31.12.12	Financial statements at 31.12.12	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
Financial fixed assets	60.332	0	0
Total non-current assets	**16.712.690**	**18.444**	**0**
C) Inventory	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**	**2.504.675**	**19.326**
D) Prepayments and accrued income	269.070	2.990	0
Total assets	**49.295.845**	**2.526.110**	**19.326**
Equity and liabilities			
A) Share capital	1.043.256	10.000	10.200
Income - related and other reserves	1.021.221	5.000	129
Shareholders' contributions to cover losses	0	0	113
Retained earnings	600.029	352.750	0
Net profit/(loss) for the year	9.158.666	(287.053)	(1.174)
Total equity	**11.823.172**	**80.697**	**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 equity and liabilities	**49.295.845**	**2.526.110**	**19.326**
Income statement			
A) Production revenue	111.123.082	1.617.860	1.000
B) Production cost	(98.239.092)	(1.987.220)	(2.667)
Operating profit/(loss)	12.883.990	(369.360)	(1.667)
C) Net Financial income	205.002	3.567	493
D) Adjustments to financial assets	0	0	0
E) Extraordinary income / (expense)	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**	**(287.053)**	**(1.174)**

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 2011).

	Cairo Pubblicità	Cairo Due	Il Trovatore	Cairo Sport	Diellesei in liquidazione
	Financial statements at 31.12.11	Financial statements at 31.12.11	Financial statements at 31.12.11	Financial statements at 31.12.11	Financial statements at 31.12.11
Assets					
A Share capital proceeds to be received	0	0	0	0	0
B) Intangible fixed assets	1.509.518	0	159	0	0
Tangible fixed assets	18.328	0	5.070	0	0
Financial fixed assets	1.828	0	3.873	0	
Total non-current assets	**1.529.673**	**0**	**9.102**	**0**	**0**
C) Inventory	0	0	0	0	0
Receivables	107.719.400	215.803	383.016	2.367	172.598
Current financial assets	0	0	0	0	0
Liquid funds	9.625.966	353.361	24.696	7.544	19.761
Total current assets	**117.345.366**	**569.165**	**407.712**	**9.911**	**192.359**
D) Prepayments and accrued income	214.756	129	555	129	744
Total assets	**119.089.795**	**569.294**	**417.369**	**10.041**	**193.103**
Equity and liabilities					
A) Share capital	2.818.400	46.800	25.000	10.400	10.000
Income - related and other reserves	1.167.468	10.428	2.674	0	0
Shareholders' contributions to cover losses	331	24.615	0	0	30.000
Retained earnings/(losses carried forward)	9.394	8.614	(121)	0	(181.408)
Net profit/(loss) for the year	4.684.371	(3.668)	4.285	(1.179)	(9.997)
Total equity	**8.679.964**	**86.789**	**31.838**	**9.221**	**(151.405)**
B) Provisions for risks and charges	1.158.692	0	0	0	100.646
C) Employees' leaving entitlement	768.341	0	6.369	0	
D) Payables	108.373.674	482.505	379.162	820	243.862
E) Accrued expenses and deferred income	109.124	0	0	0	0
Total equity and liabilities	**119.089.795**	**569.294**	**417.369**	**10.041**	**193.103**
Income statement					
A) Production revenue	211.779.331	1.003	353.615	0	12.946
B) Production cost	(204.732.148)	(2.380)	(336.073)	(818)	(24.286)
Operating profit/(loss)	7.047.184	(1.377)	17.541	(818)	(11.340)
C) Net financial income / (expense)	190.293	8.798	(931)	(361)	(101)
D) Adjustments to financial assets	0	0	0	0	0
E) Extraordinary income / (expense)	0	0	0	0	0
Pre-tax profit/ (loss)	**7.237.476**	**7.421**	**16.610**	**(1.179)**	**(11.441)**
Income tax	(2.553.105)	(11.089)	(12.325)	0	1.444
Net profit / (loss) for the year	**4.684.371**	**(3.668)**	**4.285**	**(1.179)**	**(9.997)**

ANNEX 5

Summary figures of the most recently approved financial statements of the subsidiaries in the publishing segment (31 December 2011).

	Cairo Editore	Cairo Publishing	Edizioni Anabasi
	Financial statements at 31.12.10	Financial statements at 31.12.10	Financial statements at 31.12.10
Assets			
A Share capital proceeds to be received	0	0	0
B) Intangible fixed assets	15.924.086	23.419	0
Tangible fixed assets	2.156.540	4.031	0
Financial fixed assets	57.760	0	0
Total non-current assets	**18.138.385**	**27.450**	**0**
C) Inventory	3.207.747	181.676	0
Receivables	23.525.278	2.029.068	7.431
Current financial assets	0	0	0
Liquid funds	7.056.195	134.105	10.904
Total current assets	**33.789.220**	**2.344.849**	**18.334**
D) Prepayments and accrued income	261.098	5.908	0
Total assets	**52.188.703**	**2.378.207**	**18.334**
Equity and liabilities			
A) Share capital	1.043.256	10.000	10.200
Income - related and other reserves	1.021.221	5.000	129
Shareholders' contributions to cover losses	0	0	4
Retained earnings	600.029	301.568	0
Net profit/(loss) for the year	11.000.567	(248.818)	(2.891)
Total equity	**13.665.073**	**67.750**	**7.442**
B) Provisions for risks and charges	2.207.926	474.672	0
C) Post - employment benefits	2.457.101	132.751	0
D) Payables	33.598.678	1.703.034	10.892
E) Accrued expenses and deferred income	259.925	0	0
Total equity and liabilities	**52.188.703**	**2.378.207**	**18.334**
Income statement			
A) Production revenue	100.885.715	1.583.577	0
B) Production cost	(83.657.711)	(1.891.662)	(3.056)
Operating profit/(loss)	17.228.004	(308.084)	(3.056)
C) Net financial income / (expense)	170.063	10.169	165
D) Adjustments to financial assets	(107.767)	0	0
E) Extraordinary income / (expense)	0	0	0
Pre-tax profit/ (loss)	**17.290.300**	**(297.915)**	**(2.891)**
Income tax	(6.289.733)	49.097	0
Net profit / (loss) for the year	**11.000.567**	**(248.818)**	**(2.891)**

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 services		
Audit of separate financial statements, consolidated financial statements, regular checks on corporate bookkeeping and checks of minor companies	KPMG S.p.A.	69
Subsidiaries		
- Cairo Pubblicità S.p.A.	KPMG S.p.A.	35
- Cairo Editore S.p.A.	KPMG S.p.A.	59
Attestation services		
Parent company	KPMG S.p.A *	18

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

KPMG S.p.A.
Revisione e organizzazione contabile
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(Translation from the Italian original which remains the definitive version)

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

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

1 We have audited the separate financial statements of Cairo Communication S.p.A. as at and for the year ended 31 December 2012, 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 3 April 2012 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 2012 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 2012, the results of its operations and its cash flows for the year then ended.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

Ancona Aosta Bari Bergamo
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Catania Como Firenze Genova
Lecce Milano Napoli Novara
Padova Palermo Parma Perugia
Pescara Roma Torino Treviso
Trieste Udine Varese Verona

Società per azioni
Capitale sociale
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20124 Milano MI ITALIA

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 2012.

Milan, 5 April 2013

KPMG S.p.A.

(signed on the original)

Francesco Spadaro
Director

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

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

• the suitability of the characteristics of the company and

• the effective application of administrative and accounting procedures for the preparation of the 2012 financial statements.

2. We also confirm that

2.1 the separate financial statements at 31 December 2012:

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, 19 March 2013

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