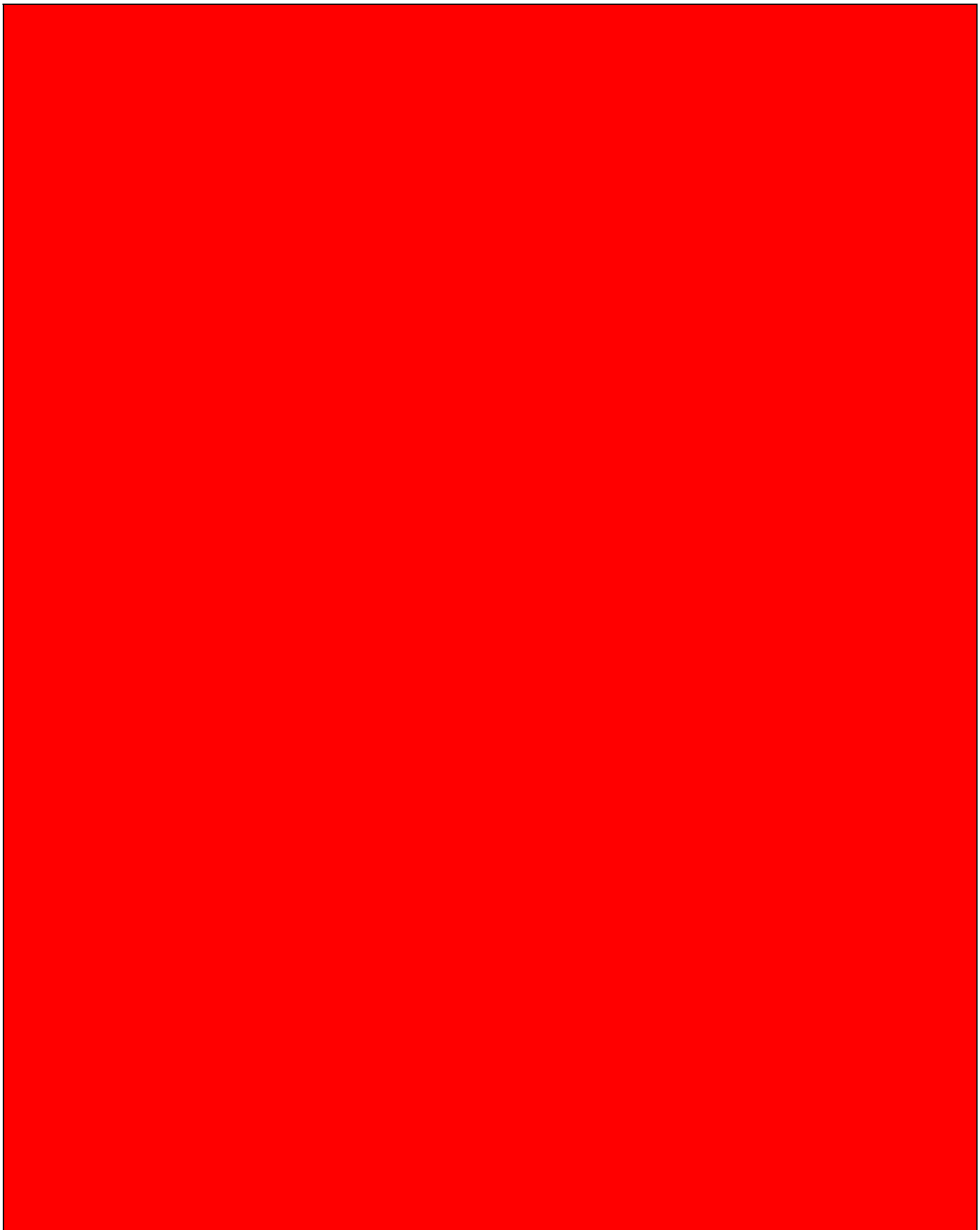
CAIRO COMMUNICATION

Annual Report
2003-2004 Financial Year ending 30 September 2004

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



NOTICE OF ANNUAL GENERAL MEETING

Shareholders are convened to the Annual Meeting to be held at the 'Circolo della Stampa' building, 16 Corso Venezia, Milan, Italy on 27 January 2005 at 10 am, and if necessary, on 28 January 2005, at the same time and place, in order to discuss and consider the following:

Agenda

1. Review of the Parent Company's and Group's Directors' Reports, Financial Reports, Board of Auditors' Report, Statutory Auditor's Report and financial statements for the financial year ending 30 September 2004;
2. Deliberations concerning the Company's acquisition of its own shares, pursuant to Article 2357 and subsequent of the Italian Civil Code and deliberations of 17 December 2003.

Only those shareholders presenting the specific certification as stipulated by Article 34 of CONSOB (Italian Stock Exchange regulatory agency) resolution no. 11768 of 23 December 1998 may attend. The issue of this certification is to be requested from the relevant intermediaries.

In accordance with the laws in place, corporate governance reports and documentation, matters on the agenda will be made available to shareholders fifteen days prior to the Meeting at the Company's registered office and at the Italian Stock Exchange, and may also be viewed by accessing the Company's web site at www.cairocommunication.it .

Chairman of the Board of Directors
Urbano Cairo

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Cairo Communication Group

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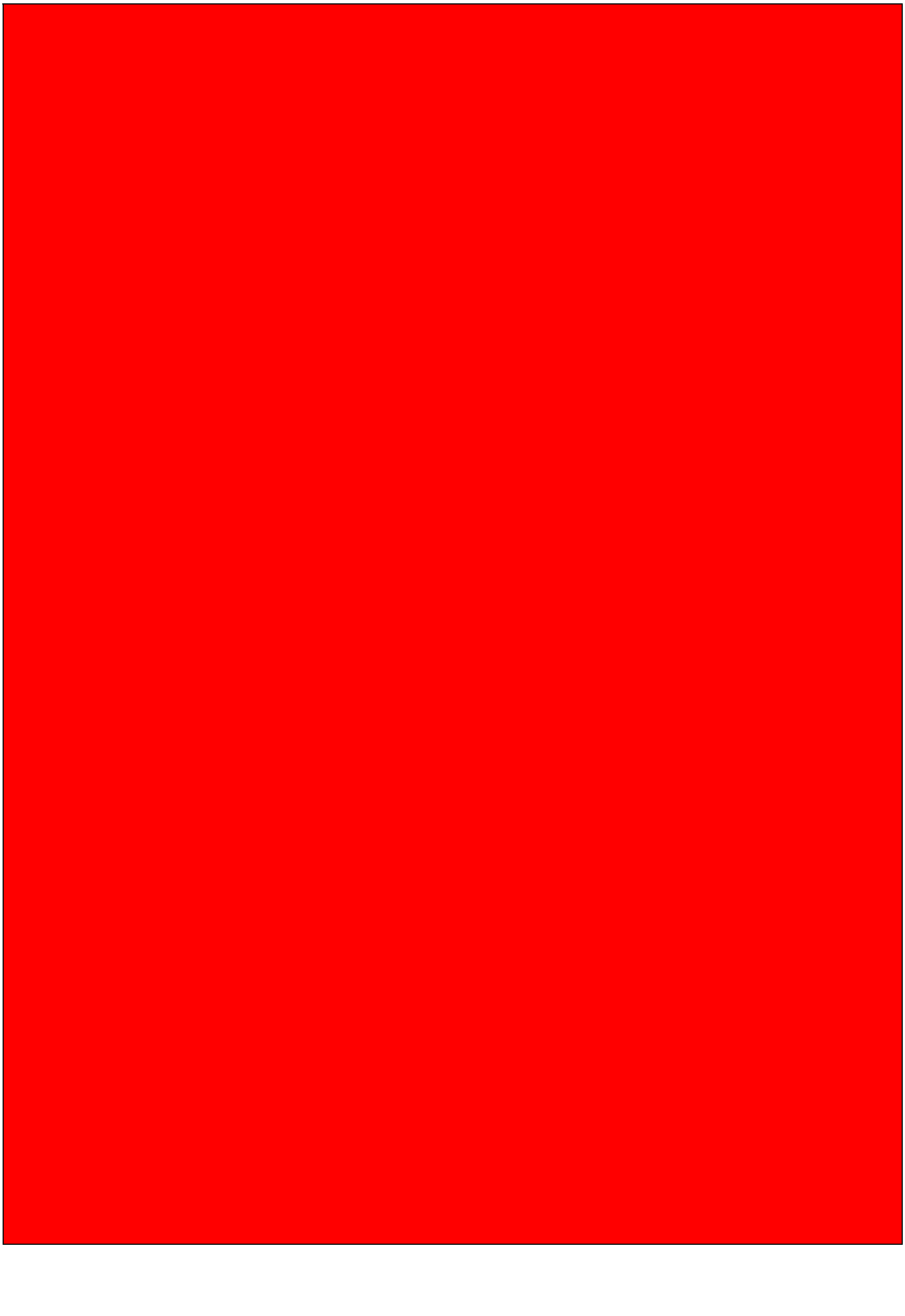


Corporate Governance

Board of Directors

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

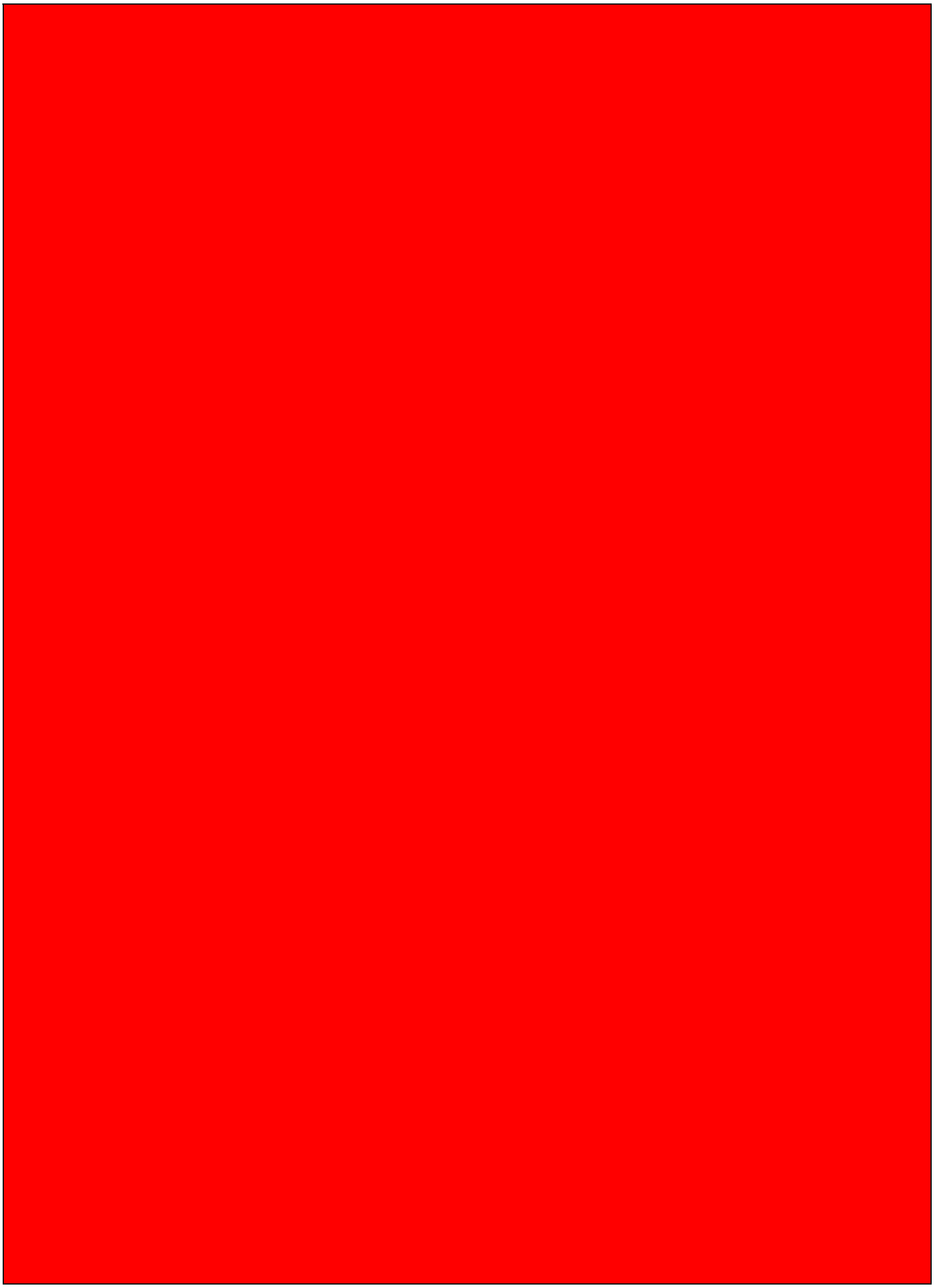
Board of Auditors

Mauro Sala	Chairman
Marco Baccani	Principal auditor
Enrico P. Muscato	Principal auditor
Maria Silvia Gandolfi	Alternate auditor
Ferdinando Ramponi	Alternate auditor

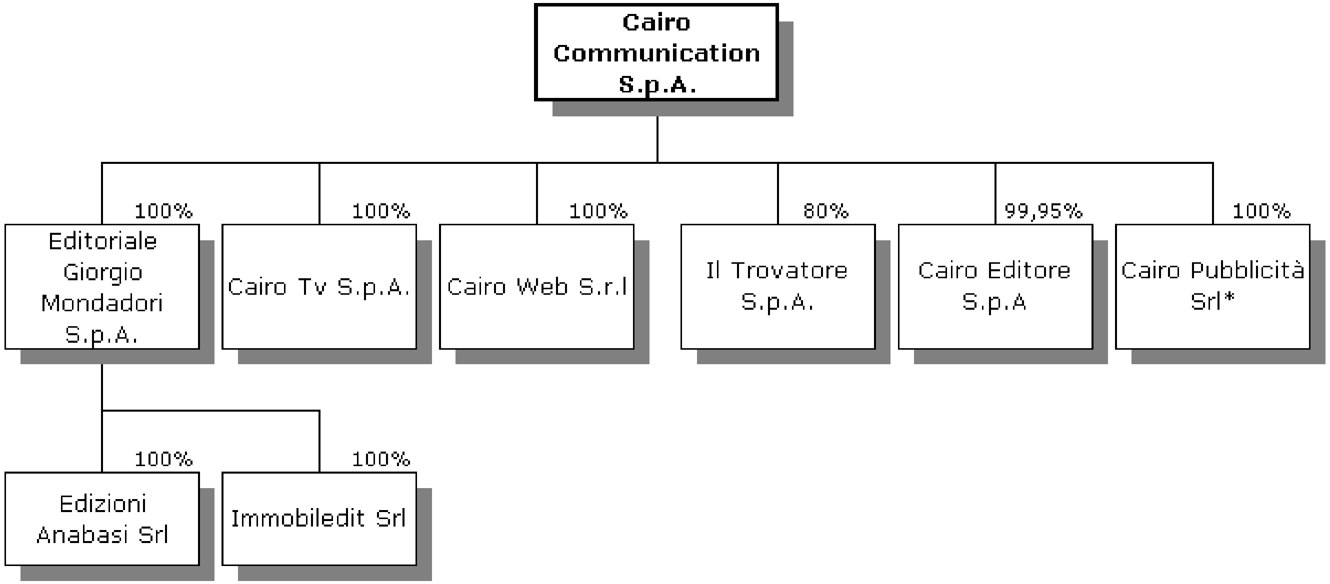
Statutory Auditor

Deloitte & Touche SpA

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



Group Structure



CAIRO COMMUNICATION

Cairo Communication SpA
Parent Company Directors’ Report
2003-2004 Financial Year ending 30 September 2004

EXECUTIVE SUMMARY

PARENT COMPANY DIRECTORS' REPORT

Cairo Communication SpA

Financial Year ending 30 September 2004

Dear Shareholders,

We hereby present to you for your approval the parent company financial statements of Cairo Communication SpA, henceforth referred to as the "Company", for the financial year ending 30 September 2004, comprising a Balance Sheet, Income Statement and Notes, prepared in accordance with Italian Civil Law and changes arising from Legislative Decree 127/91, reporting a Company net profit of € 5.1 million.

During the 2003-2004 financial year, Cairo Communication Group continued to operate as an advertising broker selling advertising time/space on TV networks, in print media and on Internet sites, and as a publisher of books and magazines (Editoriale Giorgio Mondadori and Cairo Editore publishing houses) and an operator of Internet sites (Il Trovatore search engine). In April 2004, the Group established the Cairo Directory company, enabling it to enter the telephone directory market, in line with the Group strategy regarding the development of high-margin activities.

The growth recorded in Cairo Editore, with the launch of new titles, confirmed Cairo Group's strategic decision to focus on the development of its Publishing business. Sandro Mayer, one of Italy's best known and most experienced editors, has taken on the directorship of a new popular weekly current affairs magazine, "Settimanale Di Più", which went on sale on 19 April, following a planning stage of just three months. This title is enjoying excellent results and exceeding all sales forecasts. Sales figures for the first thirty-one editions of "Settimanale Di Più" averaged 810,000 copies each (sales for the twelve month period September 2003 – August 2004 averaged 789,000 copies for the twenty issues. Source: ADS). Advertising sales for this title have also shown considerable improvement and at 26 November 2004 the advertising order backlog for "Settimanale Di Più" for the remainder of 2004 (37 issues) totalled € 11 million.

Results for the first seven months have led the Group to forecast a marked increase in sales and advertising revenues for this title, and a corresponding improvement in Group profitability margins. The Group forecasts advertising revenues of € 43 million (before launch costs) and a profit margin of 25% for its "Settimanale Di Più" title for the coming twelve months.

The two titles launched by Cairo Editore during 2003, "For Men Magazine" and "Natural Style", have continued to enjoy strong sales and distribution figures. Average sales for these titles for the September 2003 – August 2004 twelve month period have totalled 130,000 and 102, 000 copies respectively. (Source: ADS)

The Group’s EGM subsidiary, publisher of the “Bell’Italia”, “Bell’Europa”, “In Viaggio”, “Airone”, “Gardenia”, “Arte” and “Antiquariato” magazines, also enjoyed strong performances during the financial year, developing their publications with advertising campaigns and numerous publishing initiatives.

The Group’s Advertising business also enjoyed strong sales growth, particularly with regard to the sale of advertising time on behalf of the La7 TV network, which generated revenue totalling € 79 million during the October 2003 – September 2004 period, up 35% on last year, against overall growth in the advertising market during this 12-month period of just 13% (Source: AC Nielsen).

Specialty channels advertising time sales also performed well, particularly for Cartoon Network and Boomerang, with sales up 40% to € 5.9 million. Sales for Discovery Channel, Discovery Civilization, Discovery Travel & Adventure and Discovery Science doubled on last year’s figures, totalling € 2.6 million. Sales for Bloomberg and CNN were also strong. Advertising time sales for Sky Sport 1 and Calcio Sky continued until June 2004 (€ 36.7 million for the nine-month period October 2003 – June 2004).

Gross operating revenues for the Cairo Communication Group for the 2003-2004 financial year jumped 20.8% from € 155.5 million for last year to € 187.8 million. Group gross operating profit (EBITDA) increased by 16.1% to € 15.1 million from € 13 million for the previous financial year. Group operating profit (EBIT) rose 15.1% from € 5.2 million to € 6 million.

CAIRO COMMUNICATION SPA - FINANCIAL RESULTS

The Extraordinary General Meeting of shareholders of 20 April 2004 approved the merger by incorporation of the wholly-owned subsidiary Cairo TV SpA into Cairo Communication SpA, the Group parent company. The merger act was signed on 28 June 2004 and filed with the companies register on 30 June, 2004. As outlined in the merger plan, the assets and liabilities of the merged companies are incorporated into the financial statements of Cairo Communication SpA, with effect from 1 October 2003.

For the purposes of transparency and ease of comparability of 30 September 2004 and 30 September 2003 financial statements, a Parent Company proforma Balance Sheet has been prepared at 30 September 2003 combining the financial statements of the two companies at that date in order to reflect the effect of the merger, as if they were one legal entity.

Cairo Communication SpA - Parent Company Income Statement

(€ thousands)			
Financial year ending 30 September	**2004**	**2003 Proforma**	**2003**
Sales	154,537	140,835	112,560
Other operating revenues	1,735	1,923	1,470
Gross operating revenues	**156,272**	**142,758**	**114,030**
Advertising agency discounts	(22,023)	(19,527)	(12,671)
Operating revenues	**134,249**	**123,231**	**101,359**
Cost of sales	(118,882)	(107,328)	(88,480)
Personnel costs	(4,243)	(3,949)	(3,201)
Gross operating profit (EBITDA)	**11,124**	**11,954**	**9,678**
Depreciation, amortisation and provision charges	(8,463)	(6,551)	(4,640)
Operating profit (EBIT)	**2,661**	**5,403**	**5,038**
Net finance income	4,920	2,468	10,048
Investment value adjustments	0	(452)	(452)
Profit from ordinary activities	**7,581**	**7,419**	**14,634**
Net exceptional expenses	(114)	(1,124)	(943)
Profit before tax	**7,467**	**6,295**	**13,691**
Income tax	(2,388)	(1,719)	(3,440)
Net profit	**5,079**	**4,576**	**10,249**

Cairo Communication SpA continued to operate during 2003-2004 as a multimedia advertising broker selling advertising time/space on TV networks, in print media and on Internet sites, and as a publisher of books and magazines and to provide centralised services to Group companies.

Company gross operating revenues amounted to € 156.3 million, up € 13.5 million on a proforma basis over the previous year, reflecting primarily the increase in revenue from the advertising time sales agreement with the La7 TV network.

Advertising sales revenues and profit margins realised by Cairo during the 2003 calendar year from its agreement with the La7 TV network were lower than what will be achieved in subsequent years as a result of agreement specificities relating to the first year, resulting in reduced revenues of € 2 million from this source in 2003-2004.

Gross operating profit (EBITDA) fell slightly from € 12 million to € 11.1 million for 2002-2003 (proforma). Operating profit (EBIT), totalling € 2.7 million, was affected by the increase in depreciation, amortisation and provision charges results from the € 0.6 million entrance fee paid to the La7 network in order to sell its advertising time, which only took effect during the January - March period of the 2002-2003 financial year and for the same period of the previous year had been calculated only during the January - September nine-month period. It was also affected by the allocation of the merger difference created by the aforementioned incorporation of Cairo TV SpA and the writedown of some assets.

2002-2003 net finance income and profit before tax included a € 5.1 million dividend and a related tax credit of € 2.6 million, totalling € 7.7 million, from its subsidiary, Cairo TV SpA.

Cairo Communication SpA Parent Company Balance Sheet

(€ thousands)	**30 September 2004**	**30 September 2003 (proforma)**	**30 September 2003**
Assets			
Property, furniture and equipment	505	630	528
Intangible assets	10,505	14,906	7,804
Investments	13,991	13,250	22,047
Treasury shares	765	1,195	1,195
Other current assets	7,229	12,143	17,696
Total Assets	**32,995**	**42,124**	**49,270**
Equity and Liabilities			
Shareholders equity	130,804	136,195	136,275
Non-current borrowings and provisions for liabilities	1,248	984	708
Borrowings from unconsolidated subsidiary	4,885	4,985	4,985
Net financial assets	(103,942)	(100,040)	(92,698)
Total Equity and Liabilities	**32,995**	**42,124**	**49,270**

As earlier discussed, the increase in intangible assets arises primarily from the merger difference (€ 6.1 million net of amortisation) resulting from the incorporation of Cairo TV and which was capitalised as merger goodwill on the Parent Company financial statements in order to reflect the revenue generating capability of the incorporated company and the synergies that result.

Cairo Communication SpA - Parent Company Statement of Net Financial Position

(€ thousands)	30 Sept. 2004	30 Sept. 2003 (proforma)	30 Sept. 2003	Change (proforma)	Change
Bank and cash	90,865	91,080	86,615	(3,093)	4,250
Surety deposit	6,995	-	-	6,995	6,995
Insurance financial product	6,000	6,000	6,000	-	-
Marketable securities	82	82	82	-	-
Bank loans	(8)	-	-	(8)	(8)
Net Financial Assets	**103,934**	**100,040**	**92,697**	**3,894**	**11,237**
Immobiledit borrowings	(4,884)	(4,985)	(4,985)	101	101
Net Financial Position	**99,050**	**95,055**	**87,712**	**3,995**	**11,338**

Net financial assets includes a surety deposit of € 6,985,651(€ 6,994,696 net of interest accrued) made by Cairo Communication SpA pending the arbitrator's decision regarding the dispute between Cairo Communication and Tele+ SpA, as described in the Note 14 to the Parent Company financial statements.

Cairo Communication has continued to manage its cash and bank assets very prudently, investing for the most part in interbank deposits.

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

CAIRO COMMUNICATION GROUP - FINANCIAL RESULTS

Cairo Communication Group Consolidated Income Statement

(€ thousands)		
Financial year ending 30 September	**2004**	**2003**
Sales	183,973	152,905
Other operating revenues	3,862	2,526
Gross operating revenues	**187,835**	**155,431**
Advertising agency discounts	(22,025)	(19,528)
Inventory movements	(124)	(322)
Operating revenues	**165,686**	**135,581**
Cost of sales	(139,070)	(113,213)
Personnel costs	(11,533)	(9,385)
Gross operating profit (EBITDA)	**15,083**	**12,983**
Depreciation and provision charges	(9,108)	(7,795)
Operating profit (EBIT)	**5,975**	**5,188**
Net finance income	2,741	3,195
Profit from ordinary activities	**8,716**	**8,383**
Net exceptional expenses	(174)	(1,281)
Profit before tax	**8,542**	**7,102**
Income tax	(1,904)	(2,088)
Minority interest	67	27
Net profit	**6,705**	**5,041**

2003-2004 Group gross operating revenues increased by 20.8% to € 187.8 million from € 155.4 million, consisting of € 184 million in sales and € 3.8 million in other operating revenues.

Both Group EBITDA and EBIT profit margins remained stable during this time, despite EBITDA increasing 16.1% to € 15.1 million from € 13 million and EBIT rising 15.1% to € 6 million from € 5.2 million. These results were achieved despite € 2.1 million pre-publication and launch costs associated to the launch of a new title, which were incurred during the year (€1.4 million last year).

The Group incurred € 3.2 million in publishing and advertising costs relating to the launch of "Settimanale Di Più" during 2003-2004. These costs have been spread over the first 12 months of the magazine's publication (€ 1.6 million during the 2003-2004 financial year). Further advertising costs totalling € 0.6 million were also incurred for issues of the magazine subsequent to its launch.

During this year, promotion activities continued for the titles launched during 2003, "For Men Magazine" magazine and "Natural Style" magazine. This involved a considerable investment in advertising, as did the relaunch of "Airone" and "Gardenia", in addition to launch and pre-publication costs which totalled € 2.2 million over the twelve month period, a sharp increase on costs of € 1.2 million incurred during the 2002-2003 financial year.

Advertising sales revenues and profit margins realised by Cairo during the 2003 calendar year from its agreement with the La7 TV network were lower than what will be achieved in subsequent years as a result of agreement specificities relating to the first year, resulting in reduced revenues of € 2 million from this source in 2003-2004.

The increase in depreciation, amortisation and provision charges (€ 0.6 million for the October-December 2003 period) results from the amortisation of the entrance fee paid to the La7 network in order to exclusively sell advertising time on its behalf, which came into effect in January 2003.

Group net finance income included € 0.5 million in dividend tax credits (€ 1.6 million for 2001-2003). Excluding this dividend tax credit, net finance income would have amounted to € 2.7 million.
Net exceptional expenses include € 0.2 million in costs arising from an income tax agreement, pursuant to Articles 8, 9 and subsequent amendments to Law N° 350 of 4 December 2003.

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

(€ thousands) **Financial year ending 30 September**	**2004**			**2003**		
	Advertising	**Publishing**	**Total**	**Advertising**	**Publishing**	**Total**
TV advertising time sales	124,513	-	**124,513**	-	97,777	**97,777**
Print media advertising space sales	10,394	20,152	**30,546**	14,023	29,080	**43,103**
Stadium signs and electronic billboards advertising space sales	10	-	**10**	-	201	**201**
Internet advertising time sales	63	-	**63**	-	143	**143**
Magazine over-the-counter sales	-	25,431	**25,431**	7,776	-	**7,776**
Magazine subscription sales	-	3,392	**3,392**	3,176	-	**3,176**
Audiovisual and other sales	-	116	**116**	78	-	**78**
Books and catalogues	-	629	**629**	907	-	**907**
VAT relating to publications	-	(727)	**(727)**	(256)	-	**(256)**
Total - Sales	**134,980**	**48,993**	**183,973**	**25,704**	**127,201**	**152,905**
Other operating revenues	3,070	792	**3,862**	595	1,931	**2,526**
Total - Gross Operating Revenues	**138,050**	**49,785**	**187,835**	**26,299**	**129,132**	**155,431**

Analysis Group Financial Results by Business Segment

(€ thousands)	Advertising		Publishing		Search Engine (Il Trovatore)		Directory	
Financial year ending 30 September	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Sales	134,826	127,037	48,993	25,704	154	164	-	-
Other operating revenues	3,060	1,924	792	595	10	7	-	-
Gross operating revenues	**137,886**	**128,961**	**49,785**	**26,299**	**164**	**171**	-	-
Agency discounts	(22,025)	(19,528)	-	-	-	-	-	-
Inventory movements	-	-	(124)	(322)	-	-	-	-
Operating revenues	**115,861**	**109,433**	**49,661**	**25,977**	**164**	**171**	-	-
Cost of sales	(99,278)	(93,617)	(39,456)	(19,324)	(249)	(272)	(86)	-
Personnel costs	(4,243)	(3,949)	(7,289)	(5,436)	-	-	-	-
Gross operating profit (EBITDA)	**12,340**	**11,867**	**2,916**	**1,217**	**(85)**	**(101)**	**(86)**	-
Depreciation and provision charges	(7,799)	(6,227)	(1,267)	(1,543)	(24)	(25)	(18)	-
Operating profit (EBIT)	**4,541**	**5,640**	**1,649**	**(326)**	**(109)**	**(126)**	**(105)**	-
Net finance income/(expenses)	2,519	2,979	221	217	(6)	(1)	6	-
Profit from ordinary activities	**7,060**	**8,619**	**1,870**	**(109)**	**(115)**	**(127)**	**(99)**	-
Net exceptional income/(expenses)	(153)	(1,134)	(1)	(140)	(20)	(7)	-	-
Profit before tax	**6,907**	**7,485**	**1,869**	**(249)**	**(135)**	**(134)**	**(99)**	-
Income tax	(2,579)	(2,182)	677	94	(2)	-	-	-
Minority interest	-	-	-	-	**26**	27	**40**	-
Net profit/(loss)	**4,328**	**5,303**	**2,546**	**(155)**	**(110)**	**(107)**	**(59)**	-

Cairo Communication Group Consolidated Balance Sheet

(€ thousands)	**30 September 2004**	**30 September 2003**
Assets		
Property, furniture and equipment	3,031	3,049
Intangible assets	14,821	19,510
Investments	189	209
Treasury shares	765	1,195
Marketable securities	-	-
Other current assets	1,890	11,663
Total Assets	**20,696**	**35,626**
Equity and Liabilities		
Shareholders' equity	129,743	133,588
Minority interest	745	12
Non-current borrowings and provisions for liabilities	5,112	6,153
Borrowings from unconsolidated subsidiary	0	0
Net financial assets	(114,904)	(104,127)
Total Equity and Liabilities	**20,696**	**35,626**

The decrease in shareholders' equity arises primarily from the distribution of € 12.4 million in cash dividends of (€ 1.6 per share) pursuant to deliberations by the Shareholders' Meeting of Cairo Communication SpA of 17 December 2003, (excluding treasury shares).

On 10 December 2003, the Board of Directors of Cairo Communication SpA allocated the second block of shares pursuant to the stock option plan approved by the Extraordinary Meeting of 19 April 2000. At 30 September 2004, the final date for the exercise of the second block of the stock option plan, rights had been exercised of 84,340 shares, equivalent to a share capital increase of € 43,856.80, and a share premium increase of € 1.78 million.

Cairo Communication Group Consolidated Statement of Net Financial Position

(€ thousands)	30 Sept. 2004	30 Sept. 2003	Change
Bank and cash	101,828	98,065	3,822
Surety deposit	6,995	-	6,995
Marketable securities	82	82	-
Insurance financial products	6,000	6,000	-
Bank loans	-	(21)	(40)
Net Financial Assets	**114,904**	**104,127**	**10,777**
Immobiledit borrowings	-	-	-
Net Financial Position	**114,904**	**104,127**	**10,777**

Net financial assets includes a surety deposit of € 6,985,651(€ 6,994,696 net of interest accrued) made by Cairo Communication SpA pending the arbitrator's decision regarding the dispute between Cairo Communication and Tele+ SpA, as described in the Note 14 to the Parent Company financial statements.

Cairo Communication has continued to manage its cash and bank assets very prudently, investing for the most part in interbank deposits.

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

CAIRO COMMUNICATION PARENT COMPANY AND SUBSIDIARIES OPERATING RESULTS

PUBLISHING BUSINESS

Editoriale Giorgio Mondadori SpA (EGM) & Cairo Editore SpA

The significant increase in revenue generated by the Publishing business this year is linked to the launch of "Settimanale Di Più" on 19 April, which has generated sales and advertising revenues of € 20.7 million for the Group.

This magazine has enjoyed extraordinary success, with average sales of 810,000 copies for the first 31 issues. This new title brings Cairo Editore into the high margin weekly magazine market.

The Group's Publishing business has enjoyed growing profit margins overall, with gross operating profit (EBITDA) increasing 139% from € 1.2 million to € 2.9 million. The addition of three new titles, "For Men magazine" and "Natural Style" during 2003 followed by "Settimanale Di Più" during 2004 will allow for streamlining of existing structures, as EGM has made its company structure available to Cairo Editore, providing assistance with management, administration and sales. Assistance will also be given with administrative and financial controls, distribution, subscription management and control, office space and related services.

Editoriale Giorgio Mondadori Group, the subsidiary that publishes "Airone", "Bell'Italia", "Bell'Europa", "Gardenia", "Arte" and "Antiquariato" continued to enjoy strong sales figures during this period.

In particular, the EGM tourism titles, "Bell'Italia", "Bell'Europa" and "In Viaggio" continue to post impressive circulation figures. The latest figures from Audipress confirm their continued growth trend, which is almost unique in the tourism publishing sector. "Bell'Italia" readership has climbed to 656,000, strengthening its position as market leader with 8.1%. "Bell'Europa" readership has reached 341,000, an increase of 25.8% while "In Viaggio" readership figures have jumped 30% to 208,000. Overall these titles command 38.1% of their market. The strong readership figures of these three magazines are matched by their distribution figures. According to the most recent data from Audipress, average sales for the September 2003 - August 2004 period for "Bell'Italia" totalled 72,600, while sales of "Bell'Europa" and "In Viaggio" reached 48,900 and 34,300 respectively.

ADVERTISING BUSINESS

TELEVISION DIVISION

The significant increase in revenue from the sale of TV advertising time is primarily due to revenues generated by the advertising contract with the La7 network, which generated sales of € 79 million during the October 2003 – September 2004 period, up 35% on last year, against overall growth in the advertising market during this 12-month period of just 13% (Source: AC Nielsen).

Advertising time sales for the Sky digital channels continued until June 2004, as described below, and for the other specialty channels Cartoon Network, Discovery Channel, Bloomberg and CNN.

During 2004, Cairo began selling advertising time on Boomerang, the new Turner cartoon channel (they also produce the Cartoon Network), followed by Discovery Civilization, Discovery Travel & Adventure and Discovery Science specialty channels.

Group subsidiary Cairo TV SpA signed a ten-year contract with the Tele+ television network in 1998, giving it the exclusive rights for the sale of advertising time on Tele+ terrestrial and digital TV channels until December 2007. 2003 was a watershed year for the Italian pay TV market, with the arrival of Sky and the creation of a single satellite pay TV network for Italy from the merger of the Tele+ and Stream satellite TV networks. Channels formerly broadcast on the Tele+ satellite TV network are now broadcast on the Sky Italia satellite TV network, effective from 31 July 2003. Subsequently, as part of this operation, the broadcasting companies in the Tele+ Group were taken over by Sky Italia (formerly Stream SpA). Since 31 July 2003, advertising time sales by Cairo TV have been limited to Italian Premier League Football (Serie A) matches, both live and time delayed broadcasts, as well as the Diretta Gol, Calcio Sky and other sports shows broadcast on Sky Sport 1.

In December 2003, the Group's Cairo TV subsidiary, having nominated Guido Rossi as its arbitrator, entered into arbitration proceedings regarding its right of execution of a contract it signed with Tele+ in May 1998. This contract had awarded it the exclusive right to sell advertising time on Tele+ channels (currently limited to advertising time for Italian Serie A Football matches - live and time delayed broadcasts, and Diretta Gol, Calcio Sky and other sports shows broadcast on Sky Sport 1), which Sky Italia Srl took over when it acquired the Tele+ Group of companies. Cairo TV is also seeking a restraining order in relation to Sky Italia Srl regarding the violation of this exclusive contract, and damages for the non-fulfilment of the contract by Sky Italia Srl.

Sky Italia Srl has nominated Piero Schlesinger as its arbitrator and the two arbitrators jointly nominated Riccardo Luzzato chairman of the Board of Arbitrators. Sky Italia is contesting these claims through the Board of Arbitrators, denying having entered into the contract, which they seek to void pursuant to Cairo TV's alleged failure to discharge its responsibilities.

Prior to the arbitration process, Cairo TV had never received any notice of breach of agreement, and continues to post exceptional advertising time sales results, which have nearly tripled during the first five years, despite the failure on the part of the Tele+ Group to have reached the subscription levels forecast in the contract. Thus, it is Cairo TV's view that this agreement will be extended for a further 2 to 3 years beyond its current scheduled expiry date of 31 December 2007, as existing agreement conditions have been fulfilled.

Arbitration is ongoing. The Board of Arbitrators has taken into account matters relating to certain exceptions, regarding process and merit, raised by Sky (including the matter of the assumption of the contract) and written defence statements are currently being filed.

The aforementioned contract has generated € 36 million in revenue during the October 2003 – June 2004 period (€ 7.2 million net of editorial fees and agency discounts), which represents over 19% of the € 188 million in Group sales for the 2003-2004 financial year.

As notified in June 2004, Tele+ has now undertaken court proceedings against Cairo TV SpA, nominating Prof. Vittorio Colesanti as arbitrator, requesting that the contract (which it deems to have made under its own name, and not representing the Tele+ operating companies) be dissolved, due to breach of the contract on the part of Cairo TV (these are the same claims made by Sky Italia in the aforementioned arbitration, which were never raised by Tele+ before Sky's arrival and the beginning of the related arbitration). They are also requesting damages from Cairo TV. Cairo Communication, incorporating Cairo TV, has nominated Prof. Guido Rossi as arbitrator and has announced its intention to request that Tele+ claims be dismissed as totally groundless and has announced its intention to seek compensation from Tele+.

The Board of Arbitrators held a hearing on 28 September 2004 with the nominated Chairman of the Board, Prof. Raffaele Nobili. The Board are expected to fix the terms by which written defence statements may be lodged.

The Board of Directors feels that the outcome of the arbitration process will have no impact on the 30 September 2004 accounts.

PRINT MEDIA DIVISION - CAIRO COMMUNICATION SPA

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

- "Airone", "Bell'Italia", "Bell'Europa", "In Viaggio", "Gardenia", "Arte" and "Antiquariato" magazines pursuant to its contract with the Editoriale Giorgio Mondadori Group
- "For Men Magazine", "Natural Style" and "Settimanale Di Più" magazines for Cairo Editore
- "Prima Communicazione" and "Burda" magazines.

The contract for the sale of advertising space with Edit ("Bella" "Pratica", "Buona Cucina", "Un Mese in Cucina" and "La Mia Boutique" magazines) was concluded on 31 March 2004.

During this year, Print Media Division sales fell from € 43.1 million to € 30.6 million, primarily due to the expiry of the contract with RCS (which generated revenue of € 23.8 million during the 2002-2003 financial year), partly offset by the increase in sales of Group magazines, particularly "Settimanale Di Più" (€ 6.9 million during the April – September 2004 six month period).

INTERNET DIVISION – IL TROVATORE SPA – CAIRO WEB

During this year, development of the search engine Il Trovatore has continued, as it enjoyed high numbers of pages viewed, hits and service subscriber numbers, totalling 9.5 million, 14 million and 437,000 respectively at 30 September 2004. Development activities have focussed on the search for sources of income complementary to those from advertising space sales, and the provision of technology services. The Cairo Group has decided to maintain its presence in the Internet sector, and continues to monitor developments in this division with great interest, in order that any future opportunities may be exploited.

DIRECTORY DIVISION – CAIRO DIRECTORY

In April 2004 Cairo Communication Group entered the telephone directories market with a 60% controlling share in the Cairo Directory.

This company is managed by Carlo Basile, who has been the Group’s Commercial Director for the last six years and was Sales Director for the European leader in the direct advertising sector, for the four previous years. In his first five months on this project, he has built a team with the objective of developing the project and launching the first sales campaign at the start of 2005.

The reasoning behind this course of action is threefold:

- The reference market presents a very attractive profile: 700,000 active clients out of a potential 3,000,000.
- Possibilities for expansion of the market with an innovative, effective, client-friendly multimedia product have been identified, to complement the existing range available.
- The Cairo Communication Group will be able to enter the dynamic market of local advertising.

This project is still at the start-up stage. The details of the product and business model remain to be finalised, and the sales network agents is in the process of being established. The first few months of the project have seen costs incurred and capitalised of € 0.9 million and further management costs allocated to the income statement of € 0.1 million.

OTHER INFORMATION

RESEARCH AND DEVELOPMENT ACTIVITY

The Group did not engage in any significant Research and Development activity during the 2003-2004 financial year.

TRANSACTIONS BETWEEN THE CONTROLLING SHAREHOLDER, GROUP COMPANIES AND RELATED PARTIES

Transactions between non-consolidated Group companies and the controlling shareholder (UT Communications) and its subsidiaries were carried out at cost or fair market value. More information on the Parent Company transactions with the Group is provided in the Notes to the Parent Company Financial Statements.

The Company provides services to Group companies, consisting primarily of accounting software, furnished facilities, and corporate marketing, treasury, finance, receivables and control management services, in order to enable the Group to benefit from economies of scale and more cost-effective management.

Intragroup relationships can be analysed as follows:

(€ thousands)	Editoriale G. Mondadori SpA	Cairo Editore SpA	Cairo Directory SpA	Cairo Web Srl	Immobiledit Srl	Il Trovatore Srl
INCOME						
Administrative services and office space lease	186	-	-	-	-	22
Editoriale G. Mondadori 51% right to benefit	-	-	-	-	-	1
Interest	-	24	62	-	-	221
EXPENSES						
Entrance fees	780	-	-	-	-	-
Annual trademark fees	112	-	-	-	-	-
Ad time fees	9,555	9,744	-	-	-	-
Cairo Communication Premium 2003	50	-	-	-	135	-
Subcontractors' fees	-	-	-	336	-	-
Office space leasing	72	-	-	-	-	-
Internet services	-	-	-	-	-	52
Interest	101	-	-	-	-	-

During the year, some of the rebilled figures relating to Group companies, which are contractually regulated, were reviewed in consideration of the type of service offered and the volume of activity.

As mentioned in the Notes, a contract exists between Cairo Communication, EGM and Cairo Editore SpA for the sale of advertising space in magazines published.
In April 2004, Cairo Directory Srl was founded with a share capital of € 10,000. This was later transformed into a company for shares, with an increase in share capital of € 2 million. UT Communications (controlling shareholder, with 62% of the share capital of Cairo Communication SpA) participated in this share capital increase with a 40% share, with Cairo Communication partially renouncing the option right owed to them on the shares subscribed by the controlling shareholder.

KPMG Business Advisory Services SpA were asked to determine the option rights valuation, and it was felt that at the date of the operation, in the context of the commitments undertaken by the parties, the economic value of the option rights should be set at zero.

UT Communications had previously communicated to Cairo Communication SpA their irrevocable commitment to underwrite a 40% capital share of same (hereafter “The Investment”) if it should happen that the option rights on the aforementioned share capital increase should be only partially exercised. They also undertook to follow this 40% share with further share capital increases, as decided by the Board of Directors, to a maximum of € 10 million within five years, on condition that Cairo Communication SpA make a similar commitment to invest an appropriate proportional amount.

The share capital increase was underwritten to a total of € 1.19 million by Cairo Communication Spa (representing 60% of the total share capital) and € 800,000 (40% of the share capital) by UT Communications SpA.

A meeting of the Cairo Directory company, pursuant to Art. 2443 of the Italian Civil Code and Art. 5 of the Company bylaws authorised the Board of Directors to increase the share capital, once or more than once, until a pre-determined figure of € 10 million is reached, over a maximum period of five years from the date of deposit of the statement with the Register of Companies.

SHARES HELD BY DIRECTORS, AUDITORS AND EXECUTIVE MANAGEMENT

At the Extraordinary Meeting of 19 April 2004, the Board of Directors agreed the increase to the share capital, pursuant to Article 2441, Subsections V and VIII, excluding option rights, for a maximum of 160,000 shares, to be carried out in one or more blocks, to be reserved for certain directors, agents, associates, consultants, managers and employees of the Company or company subsidiaries, for subscription until 31 December 2004.
On 30 January 2003, the Board of Directors of Cairo Communication SpA authorised the allocation of the first block of 60,000 options pursuant to the share option plan approved by the Extraordinary Meeting of 19

April 2000. These options, with an exercise price of € 55.25, remained unexercised at their expiry date of 30 September 2003, and will be added to the second block of the share option plan as outlined below.

Name	Number of shares held at 30 Sept. 2003	Number of shares purchased	Number of shares sold	Number of shares held at 30 Sept. 2004
DIRECTORS				
Urbano R. Cairo *	5,712,750	-	(3,000)	5,709,250
Roberto Cairo	10,000	-	-	10,000
Uberto Fornara	13,800	-	15,200	26,000
Marco Janni	-	-	-	-
Antonio Magnocavallo	-	-	-	-
Marco Pompignoli	200	7,700	(1,500)	6,400
Roberto Rezzonico	-	-	-	-
BOARD OF AUDITORS				
Mauro Sala	-	-	-	-
Marco Baccani	-	-	-	-
Enrico Muscato	-	-	-	-

** Shares held directly and via UT Communications SpA and its subsidiaries*

ITALIAN CIVIL CODE ARTICLE 2428, SECTIONS 3& 4 DISCLOSURES

At 30 September 2004, Cairo Communication SpA held 26,224 € 0.52 par value treasury shares at an average cost per share of € 29.15, against September's reference price of € 27.09 per share.

The Meeting of shareholders of 17 December 2003 approved a proposal authorising the granting of powers to the Board of Directors to buyback Cairo Communications SpA shares up to the maximum number allowed by law for a period of 18 months from the date of authorisation, availing itself of the Company's distributable net profit for the financial year ending 30 September 2001 after allocation to legal reserve, the Company's retained earnings and the Company's share premium, pursuant to Article 2357 of the Italian Civil Code. The authorisation provides for the buyback of Company shares in one or more instalments through the market. The minimum and maximum purchase prices per share were set at an amount equivalent to the average official price of the shares on the Italian Stock Exchange in the 15 working days prior to the purchase, reduced or increased by 30%.

Between 30 September 2004 and the date of approval of this Report, the Company disposed of 26,000 shares at an average per share price of € 29.67 and purchased 1,525 at an average per share price of € 29.45

CORPORATE GOVERNANCE

The Board of Directors of Cairo Communication consists of 8 members, three of whom are executive: Urbano Cairo – Chairman of the Board, Uberto Fornara, CEO, and Marco Pompignoli, Chief Financial Officer. The other directors are non-executive, Antonio Magnocavallo, Marco Janni and Roberto Cairo. The remaining two directors, Roberto Rezzonico and Antonio Ferraro, are independent.

The Shareholders' Meeting of 17 December 2003 increased the number of directors from 7 to 8 in order that the number of independent directors remains unchanged, in keeping with its policy of complying with the provisions of the Code of Self Governance.

Towards the end of the 2002-2003 financial year, the law practices of Antonio Magnocavallo, Company Director, and Marco Janni merged to form a new partnership: Janni, Magnocavallo, Fauda, Brescia and Associates, with Marco Janni appointed as executive partner. Pursuant to Article 3.1 of the Code of Self Governance issued by the Corporate Governance Committee and Article IA.1.4.1 of the Italian New Market Regulations, Marco Janni is henceforth no longer deemed an Independent Director, except for those matters explicitly specified by the Board.

At 4 February 2004, the Board of Directors confirmed to the Board the discretionary powers to purchase, sell or exchange business activities and companies, as well as provide guarantees and performance bonds, which would not be delegated to individual Directors.

Reflecting the size of the Group and its companies, executive and managerial powers are vested in the Chairman, except those closely linked to the Group's Advertising business, which are vested in Uberto Fornara. There is no Management Committee.

The Chairman holds ordinary and extraordinary powers, with a single signature, excluding those matters listed above which are reserved for the Board. The Chairman regularly brings to the attention of the Board the actions taken by his delegates during the course of the year. The Chairman is responsible for the functions of the Board and thus calls the meetings, co-ordinates the activities and distributes the relevant information.

During this year, Director Marco Janni resigned as a member of the Audit Committee and the Board, meeting on 28 May 2004, decided to maintain the majority of independent directors on the Audit Committee by nominating the independent director Antonio Ferraro.

Currently the Audit Committee consists of the following members: Roberto Rezzonico, independent; Antonio Ferraro, independent member and Antonio Magnocavallo, non-executive member.

The Audit Committee has the following functions:

- the formulation of proposals to the Board of Directors regarding the ongoing prevention of operational and financial risks

- evaluation of work plans prepared by those responsible for internal controls and submitted in regular reports
- regular collaboration with the auditors, the evaluation of their proposals responsibility and their pre-prepared work plan.
- reporting on a half-yearly basis to the Board of Directors on duties discharged and the appropriateness of the internal control system, when the annual and half-yearly reports are under approval.
- assisting the Chairman in the preparation of a document regarding the proposals for the formation of an internal control system, which must include direct processes to monitor operational efficiency, the reliability of financial information, compliance with legislation and regulations and the safeguarding of assets, and the deliberation of these proposals by the Board.
- assisting the Board of Directors in the setting of guidelines for the above;
- evaluation of the appropriateness of accounting principles used and their standard application within the Group, in collaboration with Company administrative employees and auditors, as part of the preparation of the parent company and consolidated financial statements.

The Remuneration Committee consists of the following members: Roberto Rezzonico, independent member; Marco Janni, non-executive member and Antonio Magnocavallo, non-executive member.
The Remuneration Committee has the following functions:
- the formulation of proposals to the Board of Directors regarding remuneration of Managing Directors or those with particular responsibilities pursuant to Art. 2389 Section II of the Italian Civil Code, and the remuneration of senior management of the Company;
- the formulation of proposals to the Board regarding future share option plans.

Meeting on 28 May 2004, the Board approved the regulation of the Remuneration Committee, nominating Antonio Magnocavallo as Chairman.

The Board of Directors has decided not to proceed with the formation of a Nomination Committee, optional under current legislation, as it was confirmed that the current Board of Directors is in a position to carry out the functions of the Nomination committee.

In accordance with the new guidelines on insider trading and market disclosures, which came into force on 1 January 2004, covering operations involving financial instruments issued by the Company (or those who assume the right to underwrite, purchase or sell such financial instruments), carried out by "important persons", at their meeting of 19 December 2002 the Board of Directors approved an internal code of practice regulating all of the above matters. In view of the role of managers and directors who recently joined the management team of some Group companies, at their meeting of 5 August 2004 the Board of Directors approved the necessary adjustments to the current internal code of practice on insider dealing.

SHARE OPTIONS GRANTED AT 30 SEPTEMBER 2004

	30 September 2004		
	Number of options	Exercise price	Average price during 2003-2004 *
Share options held at 1 October 2003	0	0	0
Share options allocated during 2003-2004	88,000	€ 21.72	€ 28.18
Share options exercised during 2003-2004	(84,340)	€ 21.72	€ 28.18
Share options expired during 2003-2004	(3,660)	€ 21.72	€ 28.18
Share options held at 30 September 2004	0	0	0

* *Average price 1 October 2003 – September 2004*

At the Extraordinary Meeting of 19 April 2004, the Board of Directors agreed the increase to the share capital, pursuant to Article 2441, Subsections V and VIII, excluding option rights, for a maximum of 160,000 shares, to be carried out in one or more blocks, to be reserved for certain directors, agents, associates, consultants, managers and employees of the Company or company subsidiaries, for subscription until 31 December 2004.

On 14 January 2004, the Board of Directors of Cairo Communication SpA authorised the allocation of the second block of options pursuant to the share option plan approved by the Extraordinary Meeting of 19 April 2000, and approved the regulations governing the allocation of these options on a specific beneficiary basis pursuant to the achievement of individually set objectives. The second block comprises a further 50,000 options, to which are added any options of the first block that had not been exercised before their 30 September 2004 expiry date, resulting potentially in the maximum issuance of 110,000 shares pursuant to the second block.

On 10 December 2003, the Board of Directors of Cairo Communication SpA deliberated the proposal of the Chairman concerning the allocation of second block of options to specific beneficiaries, taking into account company, divisional and individual performance achievements relative to set objectives. Thus a total of 88,000 shares were exercised at an average per share price of € 21.72.

At 30 September 2004, the final date for the exercise of the second block of shares pursuant to the stock option plan, rights had been exercised of 84,340 shares, equivalent to a share capital increase of € 43,856.80.

The exercise price regarding the above option allocation will be set at the average share closing price for the preceding month on the Italian Stock Exchange New Market, and shall not exceed € 21.72, the Italian Stock Exchange New Market average closing price for the month preceding 14 January 2003.

The options may be exercised beginning from the date of the Meeting convened to approve the Company and Group financial accounts for the 2002-2003 financial year ending 30 September 2003 and 30 September 2004.

SHARE OPTIONS GRANTED TO DIRECTORS AT 30 SEPTEMBER 2004

		Share options owned at 1 October 2003			Share options granted during 2003-2004 FY			Share options exercised during 2003-2004 FY			Share options owned at 30 September 2004		
Name	Board of Director Position	No. of options	Avg. exercise price	Avg. duration	Number of options	Avg. exercise price	Expiry date	No. of options	Avg. exercise price	Avg. market price at exercise date	No. of options	Avg. exercise price	Avg. expiry date
Uberto Fornara	Vice Chairman	-	-	-	12,200	21.72	30/09/04	12,200	21.72	-	-	-	-
Marco Pompignoli	Member	-	-	-	7,700	21.72	30/09/04	7,700	21.72	-	-	-	-

Subsidiaries Cairo Editore and Cairo Directory approved a stock option plan for their directors, Ernesto Mauri and Carlo Basile, in view of the incentive plan for directors related to profitability targets and in order that a greater sense of ownership and involvement be fostered in the management of these companies.

The stock option plan relating to the CEO of Cairo Editore allows for the granting of option rights to 23,256 shares (equivalent to 2.28% of the current share capital) a total exercise price of € 718 thousand, when fixed productivity and profitability objectives are reached, taking as reference the results obtained at 31 December 2005 (or 31 December 2006, in certain cases outlined by the plan).

The stock option plan relating to the CEO of Cairo Directory, the company founded in April 2004, allows for the distribution of option rights to 83,334 shares (equivalent to 4.1% of the current share capital) at an exercise price equivalent to the book value, when fixed productivity and profitability objectives are reached, taking as reference the results obtained at 31 December 2008 (or 31 December 2009, in certain cases outlined by the plan).

APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

In order to prepare for the application of the International Financial Reporting Standards (IFRS) which will become obligatory from 2005 (the financial year ending 30 September 2006 for the Company), Cairo Communication has launched a project identifying the main differences between the Parent Company's current valuation, recognition, presentation and disclosure policies and those prescribed by IFRS.

INFORMATION PRIVACY REGULATIONS

The Board of Directors of Cairo Communication and subsidiary companies approved several organisational adjustments deemed necessary in preparation for the application of the new regulations concerning information privacy. Provision has been made for the nomination of co-ordinators responsible for data handling, to be chosen on the basis of their competence and personal experience, in order to guarantee the proper management and safeguarding of information handled by the Group.

The Group is in the process of establishing a Personal Information Security Plan, which identifies procedures applied, the resources needed to support the security measures, the risks, the regulations (physical measures, logical measures, and organisational security measures) and the training plan. This Plan will be completed by December 2004, at which time the general regulations for companies utilising information systems are formalised.

2004-2005 FINANCIAL YEAR OUTLOOK

Cairo Communication Group will focus on developing its core businesses during the 2004-2005 financial year. It will focus on the development of its Publishing business operated by its Cairo Editore SpA and Editoriale Giorgio Mondadori (EGM) subsidiaries, as well on its Advertising business, in particular the sale of advertising space in its own magazines and the sale of advertising time on the La7 TV network and selected analogue and digital pay TV specialty channels. Furthermore, from the start of 2005, the Group will be operating in the telephone directories sector with Cairo Directory.

As noted above, the launch of the new magazine “Settimanale Di Più” has been extremely successful, with exceptional results achieved. Sales for the first 31 issues have averaged 811,000 copies.
Results for the first seven months have led the Group to forecast a marked increase in sales and advertising revenues for this title, and a corresponding improvement in Group profitability margins. The Group forecasts advertising revenues of € 43 million (before launch costs) and a profit margin of 25% for its “Settimanale Di Più” title for the coming twelve months.

Thanks to the success of “Settimanale Di Più” and the two titles launched by Cairo Editore during 2003, “For Men Magazine” and “Natural Style”, over twelve months Cairo Editore will be able to generate at least € 55 million in revenue at Group level, from “Settimanale Di Più” alone. Added to the revenue of at least € 22 million generated by EGM at Group level, total sales from the Publishing business are expected to reach € 77 million.
The success of the new titles launch over the last eighteen months, “Settimanale Di Più”, “For Men Magazine” and “Natural Style”, has confirmed Cairo Group’s strategic decision made to focus on the development of its Publishing business. Further new publishing projects are currently under consideration.

BOARD OF DIRECTORS' PROPOSALS

Dear Shareholders,

The Board of Directors at its Meeting of 29 November 2004 authorised the submission of Cairo Communication SpA Company financial statements and Cairo Communication Group financial statements for the financial year ending 30 September 2004, to the Shareholders' Meeting for their approval and the distribution of an € 1.60 cash dividend per share.

Shareholders are invited to approve:

- the above financial statements for the financial year ending 30 September 2004;
- to decide upon the proposal to distribute a cash dividend of € 1.60 per share, gross of legal reserves, excluding treasury shares held the evening before the issue of the coupon, which has been set for 7 February 2005:
    - distributing the Company's 2003-2004 net profit of € 5,070,052.01;
    - drawing down the difference from the retained earnings reserve of € 6,758,842 and the remaining part from 'Other Reserves';
- to decide upon the proposal regarding the allocation of the remainder of the Company's 2003-2004 net profit of € 8,771.36 to the legal reserve, bringing it to one fifth of the Company's share capital.

Chairman of the Board of Directors

Urbano R. Cairo

CAIRO COMMUNICATION

Cairo Communication SpA
Parent Company Financial Report
2003-2004 Financial Year ending 30 September 2004

Cairo Communication SpA
Parent Company Balance Sheet
at 30 September 2004

(€)	Notes	30 Sept. 2004	30 Sept. 2003
ASSETS			
NON-CURRENT ASSETS			
Intangible Assets	3		
Incorporation and listing costs		5,702	1,455,425
TV ad time sales rights and computer software		4,425,647	6,319,446
Goodwill		6,017,447	0
Other		56,238	29,069
Total		**10,505,034**	**7,803,940**
Property, Furniture and Equipment	4	**505,074**	**527,602**
Investments			
Equity investments in subsidiaries	5	12,759,942	20,845,870
Financial receivables from subsidiaries		1,186,457	1,191,947
Other		44,543	8,995
Total		**13,990,942**	**22,046,322**
TOTAL NON-CURRENT ASSETS		**25,001,050**	**30,377,864**
CURRENT ASSETS			
Receivables	6		
Trade accounts receivable		52,557,846	43,105,701
Trade receivables from subsidiaries		3,728,584	10,910.647
Other receivables - current		4,487,969	3,718,469
Other receivables - non-current		51,201	45,702
Total		**60,825,600**	**57.780,519**
Marketable Securities	7		
Treasury shares		764,546	1,194,708
Insurance financial products and non-Group securities		6,082,197	6,082,197
Total		**6,846,743**	**7,276,905**
Bank and Cash	8		
Bank		97,709,034	86,615,046
Cash		150,563	1,022
Total		**97,859,597**	**86,616,068**
TOTAL CURRENT ASSETS		**165,531,940**	**151,673,492**
PREPAID EXPENSES/ACCRUED INCOME	9		
Prepaid expenses		143,108	157,093
Accrued income		647,566	271,985
TOTAL PREPAID EXPENSES/ACCRUED INCOME		**790,674**	**429,078**
TOTAL ASSETS		**191,323,664**	**182,480,434**

(€ thousands)	Notes	30 Sept. 2004	30 Sept. 2003
EQUITY AND LIABILITIES			
EQUITY	**10**		
Share capital		4,073,857	4,030,000
Share premium		112,377,142	112,871,055
Legal reserve		806,000	806,000
Treasury share reserve		764,546	1,194,708
Merger reserve		17,043	17,043
Other reserve		927,945	927,945
Retained earnings		6,758,842	6,179,399
Financial period net profit		5,078,823	10,249,280
TOTAL EQUITY AND MINORITY INTEREST		**130,804,198**	**136,275,430**
PROVISIONS FOR LIABILITIES & CHARGES	**11**		
Provision for employee retirement benefits		625,506	380,222
Other provisions		622,645	327,902
TOTAL PROVISIONS FOR LIABILITIES & CHARGES		**1,248,551**	**708,124**
LIABILITIES	**12**		
Borrowings			
Current		7,876	0
Non-current		0	0
Total		**7,876**	**0**
Other current liabilities			
Trade payables		40,243,095	32,593,950
Subsidiaries payables		13,797,430	9,342,136
Tax liabilities		1,610,900	473,115
Social security liabilities		175,588	151,312
Other		3,436,365	2,936,306
Total		**59,271,254**	**45,496,819**
TOTAL LIABILITIES		**59,271,254**	**45,496,819**
ACCRUED EXPENSES	**13**	**60**	**60**
TOTAL EQUITY AND LIABILITIES		**191,323,664**	**182,480,434**
Off-Balance Sheet Guarantees given to Third Parties	**14**		
Surety deposits		*6,994,696*	*0*
Guarantees given for the benefit of third parties		*19,205,588*	*23,072,673*
Guarantees given for the benefit of subsidiaries		*309,875*	*619,748*
Total		***26,510,159***	***23,692,421***

Cairo Communication SpA
Parent Company Income Statement
for the Financial Year ending at 30 September 2004

(€)	Notes	2003-2004 Full Year	2002-2003 Full-Year
OPERATING REVENUES	**18**		
Sales		**154,536,896**	**112,559,819**
Less: advertising agency discounts		(22,023,041)	(12,671,003)
Net sales		**132,513,855**	**99,888,816**
Other operating revenues		1,735,160	1,470,613
TOTAL OPERATING REVENUES		**134,249,015**	**101,359,429**
OPERATING EXPENSES	**19**		
Advertising space/time fees and other services		(117,794,009)	(87,827,724)
Rental expenses		(563,948)	(481,140)
Personnel costs			
Wages and salaries		(3,007,726)	(2,228,364)
Social security charges		(1,042,080)	(809,579)
Employee termination benefits		(189,186)	(152,689)
Other		(4,450)	(10,173)
Total		(4,243,442)	(3,200,805)
Depreciation, amortisation and writedowns			
Amortisation		(5,890,614)	(3,654,502)
Depreciation		(189,754)	(147,897)
Trade receivables writedowns		(2,290,000)	(800,000)
Total		(8,370,368)	(4,602,399)
Other provisions charges		(92,999)	(37,217)
Other operating expenses		(524,075)	(172,104)
TOTAL OPERATING EXPENSES		**(131,588,841)**	**(96,321,389)**
OPERATING PROFIT/ (LOSS)		**2,660,174**	**5,038,040**
FINANCE INCOME AND EXPENSES	**20**		
FINANCE INCOME			
Subsidiary dividends		2,398,800	7,682,908
Other subsidiary finance income		1,268	20,728
Marketable securities income		0	170,329
Other finance income		2,722,419	2,387,836
Total		**5,122,487**	**10,261,801**
FINANCE EXPENSES			
Subsidiary finance expenses		(94,586)	(78,572)
Other		(101,418)	(135,446)
Total		**(87,754)**	**(214,018)**
NET FINANCE INCOME		**4,926,483**	**10,047,783**
INVESTMENT WRITEDOWNS	**21**	(6,500)	(452,172)
EXCEPTIONAL INCOME	**22**	15,000	
EXCEPTIONAL EXPENSES		(128,610)	(943,373)
PROFIT BEFORE TAX		**7,466,547**	**13,690,278**
INCOME TAX	**23**	(2,387,724)	(3,440,998)
NET PROFIT		**5,078,823**	**10,249,280**

Cairo Communication SpA
Parent Company Cash Flow Statement
for the Financial Year ending at 30 September 2004

(€ thousands)	2003-2004 Full Year	2002-2003 Full Year
Parent company net profit	5,079	10,249
Depreciation and amortisation	6,080	3,802
Investments writedowns	0	452
Provision for termination benefits movements	132	100
Other provisions for liabilities and charges movements	133	(89)
Cash generated from operations	**11,424**	**14,515**
Trade receivables movements	4,406	(8,426)
Trade payables movements	791	10,616
Marketable securities movements (treasury shares)	430	(859)
Accrued expenses and deferred income movements	(292)	125
NET CASH FROM OPERATING ACTIVITIES	**16,759**	**15,972**
INVESTING ACTIVITIES		
Intangible and tangible assets acquisitions	(1,022)	(7,872)
Investments movements		
Subsidiary equity investments net movements	(1,200)	(3,427)
Financial receivables net movements	7	(3,198)
NET CASH USED IN INVESTING ACTIVITIES	**(2,215)**	**(8,101)**
FINANCING ACTIVITIES		
Stock option subscription	1,832	0
Dividend distribution	(12,382)	(6,155)
NET CASH USED IN FINANCING ACTIVITIES	**(10,550)**	**(6,155)**
CASH FLOW MOVEMENTS FROM MERGER (2)	**7,342**	**0**
FINANCIAL PERIOD NET CASH FLOW MOVEMENTS	**11,336**	**1,716**
CASH AND CASH EQUIVALENTS - OPENING BALANCE (1)	87,361	85,916
CASH AND CASH EQUIVALENTS - CLOSING BALANCE (1)	**98,967**	**87,361**

(1) Included € 6,000 thousand in insurance product investment, bank and cash net of short-term borrowings and subsidiaries' payables of € 4,885 thousand (€ 4,985 thousand at 30 September 2003)

(2) Comprises the following items:

Non-current assets	(252)	
Receivables	(18,172)	
Other assets	(80)	
Equity	1,774	
Provision for employee retirement benefits	276	
Trade payables and other liabilities		23,796
Total	**7,342**	

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

The financial statements of the Group's parent company, Cairo Communications SpA, henceforth known as the "Company", relating to the 2003-2004 financial year ending 30 September 2004, of which these notes are an integral part, were prepared from the Company's books of accounts, in accordance with Article 2423, and subsequent amendments, of the Italian Civil Code.
For the purposes of financial transparency, the following appendices are included, and are an integral part of the financial statements and notes:
Appendix 1 - Subsidiaries' legal information
Appendix 2 - Subsidiaries' condensed financial statements at 30 September 2004
Appendix 3 - Parent Company proforma Balance Sheet at 30 September 2003

The Extraordinary General Meeting of shareholders of 20 April 2004 approved the merger by incorporation of the wholly-owned subsidiary Cairo TV SpA into Cairo Communication SpA, the Group parent company. The merger act was signed on 28 June 2004 and filed with the companies register on 30 June, 2004. As outlined in the merger plan, the assets and liabilities of the merged companies are incorporated into the financial statements of Cairo Communication SpA, with effect from 1 October 2003.

For the purposes of transparency and ease of comparability of 30 September 2004 and 30 September 2003 financial statements, a Parent Company proforma Balance Sheet has been prepared at 30 September 2003 combining the financial statements of the two companies at that date in order to reflect the effect of the merger, as if they were one legal entity (see Appendix 3). 30 September 2003 proforma year-end balances and financial year results are provided as comparative information in the Notes to the Parent Company financial statements.

1. BASIS OF PREPARATION

Article 223 and following of the Legislative Decree 6/2003 prescribes that company financial statements covering the financial period 1 January 2004 to 30 September 2004 may be prepared using the new accounting basis or the previous basis. The Company has opted to continue with its previous accounting basis, noting that the adoption of the new accounting basis would not have had a significant impact on the 30 September 2004 accounts.

The financial statements at 30 September 2004 have been prepared in accordance with the principles prescribed in Articles 2423 and 2425, and the accounting principles of the Italian Commission for Accounting Standards of the National Council of Financial Accountants. These notes provide sufficient information in order to provide a fair and accurate representation of the Group's financial and economic position, even where not specifically required by legislation.

2. VALUATION PRINCIPLES

The following general valuation principles were adopted in the preparation of these financial statements:

Assets, liabilities, revenues and expenses were valued taking into account the principles of going concern, prudence and relevance.

The valuation principles applied are unchanged from those applied last year.

Intangible assets

Intangible assets are valued at their acquisition cost, net of related costs. They are amortised to reflect their remaining useful economic lives, generally within five years.

Intangible assets are written down to their market value when it is lower than its book value. This write-down is reversed in subsequent years if the conditions for write-down no longer apply.

Property, Furniture and Equipment

Property, Furniture and Equipment (PFE) assets are valued at their acquisition cost, including direct charges, net of accumulated depreciation.

PFE assets are depreciated at one half of the rates below in order to reflect the half-year period, with these rate reflecting their remaining useful lives and economic factors:

Machinery	30%
Motor vehicles	20%
Office furniture and furnishings	10% to 12%
Communications equipment	25%
Computer hardware	20%
Various fixtures and fittings	15%
Cellular phones	20%

PFE assets are depreciated at 50% of their depreciation rate during their first year of use, as prescribed by law.

PFE assets are written down to their market value to reflect any permanent impairment in values; these write-downs may be subsequently reversed if the conditions for write-down no longer apply.

Maintenance costs are expensed, unless they prolong the life of the asset, in which case they are capitalised and depreciated.

Investments

Equity investments in subsidiaries

Investments are accounted for using the cost method. Investments are recorded at their purchase or subscription cost and are written down in the event of permanent impairment arising from continuing losses. The write-down may be reversed if the conditions of impairment no longer apply.

Financial receivables from subsidiaries

Receivables from subsidiaries are recorded as investment assets and are not treated as an equity item.

Receivables

All receivables are recorded at the estimated net realisable value, with adequate allowances established for doubtful accounts. Specific and general risks are calculated taking into account in determining the allowance for doubtful accounts for trade accounts receivable.

Marketable securities

Marketable securities are valued at the lower of their purchase cost and their estimated net realisable value, according to market performance. In the absence of market performance information, the realisable value is determined on the basis of information available at the time of preparation of the financial statements.

Provision for retirement benefits

The provision for retirement benefits arises from the Group's cumulative liability to employees for services rendered, as prescribed by current legislation and employment contracts.

At 30 September 2004, the Company employed a workforce of 67, consisting of 10 managers, 10 supervisors and 47 employees.

Other provisions for liabilities and charges

Provisions for liabilities and charges are established in order to provide for certain or probable future losses or liabilities whose amount and date of occurrence could not be determined at year-end. Legal proceedings currently under way have also been considered. The provisions reflect the best estimate based on currently available information. Specific accrued provisions and those that remain off-Balance Sheet are disclosed in Note 14 to the Parent Company Financial Statements.

Liabilities

Liabilities arise from the Group's dealing with suppliers, banks and other financial institutions and third parties. They are recorded at their book value.

All liabilities are of short or medium term duration, with none due after five years.

Prepaids, deferrals and accruals

These arise from the payment or receipt of payment for services/goods not yet received/rendered or for services/goods received/rendered for which no invoice has yet been received, in accordance with the matching principle.

Off-Balance Sheet guarantees and commitments

Off-Balance Sheet guarantees given to or received from third parties are valued at their nominal value.

Leased assets are recorded on the financial statements at the value of the remaining payments prescribed in the lease agreement.

Revenue and cost recognition

Revenue and costs are recognised on an accrual basis, resulting in the establishment of accruals and deferrals.

Revenue is recognised at the moment the advertisement is broadcast or published.

Costs are recognised in a similar way, and in keeping with the matching principle and prudence.

Income tax

Income tax is calculated based on a reasonable estimate of the financial year tax liability; it has been calculated taking into account the various exemptions, tax rates and applicable legislation. Liabilities are listed under "Tax Liabilities"

Where applicable, deferred tax assets and liabilities have also been recorded, reflecting the temporary differences between assets and liabilities' accounting values and their corresponding income tax values, in accordance with Principle no. 25 of the Commission for Accounting Standards of the National Council of Financial Accountants.

Temporary differences are reversed when there is reasonable certainty of the realisation of adequate profit during the financial year.

Dividends

Dividends are accounted for in the year in which they are decided. The relative tax credit is accounted for in the year in which the dividends are received.

PARENT COMPANY BALANCE SHEET NOTES

3. INTANGIBLE ASSETS

At 30 September 2004, intangible assets amounted to € 10,505,034, up € 2,701,094 from 30 September 2003 and comprised the following items:

(€)	Gross Book Value	Accumulated Amortization	Net Book Value at 30 Sept. 2003	Net Change	Net Book Value at 30 Sept. 2004
Incorporation costs	51,448	(43,241)	8,207	(2,505)	5,702
Listing costs	7,236,089	(5,788,871)	1,447,218	(1,447,218)	0
Incorporation and listing costs	**7,287,537**	**(5,832,112)**	**1,455,425**	**(1,449,723)**	**5,702**
La7 advertising entrance fee	7,500,000	(1,875,000)	5,625,000	(2,500,000)	3,125,000
EGM license contract	-	-	-	682,500	682,500
Computer software	1,370,066	(675,620)	694,446	(76,299)	618,147
Total fees and software	**8,870,066**	**(2,550,620)**	**6,319,446**	**(1,893,799)**	**4,425,647**
Merger goodwill	**-**	**-**	**-**	**6,017,447**	**6,017,447**
Multi-year finance costs	116,203	(116,203)	-	-	0
Sites planning costs	129,114	(129,114)	-	-	0
Leasehold improvements	49,584	(20,515)	29,069	27,169	56,238
Other intangible assets	**294,901**	**(265,832)**	**29,069**	**27,169**	**56,238**
Total	**16,452,504**	**(8,648,564)**	**7,803,940**	**2,701,094**	**10,505,034**

The net movements for the 2003-2004 financial year were as follow:

(€)	Cairo TV merger		Net additions	Amortisation	Net change
	Gross Book Value	Accumulated Amortisation			
Incorporation costs	38,286	(36,980)	2,259	(6,070)	(2,505)
Listing costs	-	-	-	(1,447,218)	(1,447,218)
Incorporation and listing costs	**38,286**	**(36,980)**	**2,259**	**(1,453,288)**	**(1,449,723)**
La7 advertising entrance fee	-	-	-	(2,500,000)	(2,500,000)
Computer software	375,455	(286,073)	142,557	(308,238)	(76,299)
EGM license fee	-	-	780,000	(97,500)	682,500
Total fees and software	**375,455**	**(286,073)**	**922,557**	**(2,905,738)**	**(1,893,799)**
Goodwill	**-**	**-**	**7,521,809**	**(1,504,362)**	**6,017,447**
Leasehold improvements	34,409	(13,139)	33,125	(27,226)	27,169
Other intangible assets	**34,409**	**(13,139)**	**33,125**	**(27,226)**	**27,169**
Total	**448,150**	**(336,192)**	**8,479,750**	**(5,890,614)**	**(2,701,094)**

For the 2003-2004 financial year, the amortisation of the incorporation and listing costs relating almost entirely to the listing on the Milan New Market Stock Exchange, carried out on 19 July 2000. These costs were recorded as intangible assets, in consideration of the financial and economic benefits to the company, and have been amortised on a straight-line basis over five years.
Remaining incorporation and listing costs relate primarily to company registration costs. Until this amortisation is complete, dividends can only be distributed if reserves exist to cover non-amortised costs.

The increase in advertising fees is due to the € 780 thousand (gross of amortisation) non-recurring entrance fee paid to Editoriale Giorgio Mondadori SpA in order to acquire the exclusive rights to the EGM brand and trademarks until 31 December 2009.
With regard to the use of trademarks, Cairo Communication can use these for promotional activities for Company operations and those of Company clients (by way of direct advertising, telesales, Internet sites, other promotional products, advertising and promotional initiatives or other commercial marketing and public relations initiatives undertaken, including co-marketing with Company clients), as per license agreements in European countries and other initiatives. This entrance fee corresponds to the trademark license, and will be amortised over the duration of this advertising time sales contract, that is 72 months from January 2004.
The total for advertising fees also includes the residual value (€ 3.125 million) of the non-recurring entrance fee paid to TV Internazionale SpA for the exclusive advertising contract for the La7 broadcaster. This entrance fee will be amortised over the duration of this advertising time sales contract, that is, 36 months from January 2003

The incorporation of Cairo TV SpA has led to a merger difference of € 7,521,809, which was recorded as merger goodwill on the Parent Company financial statements, reflecting the incorporated company's capability to generate revenue in light of the synergies arising from the merger. The treatment and valuation of the merger difference was based on the valuation and analysis carried out by KPMG Business Advisory Services SpA. The company recorded € 1,504,362 in amortisation charges during the 2003-2004 financial year.

Start-up costs are amortised on a straight-line basis over five years.

Software cost increases arise from assets cycle management and advertising time sale activities system software development and implementation, with these costs amortisable over a 3 to 5 year period

Other intangible assets include leasehold improvement costs.

4. PROPERTY, FURNITURE AND EQUIPMENT

At 30 September 2004, Property, Furniture and Equipment amounted to € 505,074, down € 22,528 from 30 September 2003 and comprised the following items:

(€)	Gross Book Value	Accumulated Depreciation	Net Book Value at 30 Sept. 2003	Net Change	Net Book Value at 30 Sept. 2004
Motor vehicles	313,316	(131,242)	182,074	(2,390)	179,684
Machinery	24,751	(20,821)	3,930	(1,123)	2,807
Furniture and furnishings	144,343	(53,005)	91,338	(3,178)	88,160
Communications equipment	55,308	(22,907)	32,401	(9,425)	22,976
Computer hardware	482,656	(283,781)	198,875	(17,649)	181,226
Other	40,562	(22,401)	18,161	11,475	29,636
Cellular telephones	7,902	(7,079)	823	(238)	585
Total	**1,068,838**	**(541,236)**	**527,602**	**(22,528)**	**505,074**

The net movements for the 2003-2004 financial year were as follows:

(€)	Cairo TV merger		Net additions	Depreciation	Net Change
	Gross Book Value	Accumulated Amortisation			
Motor vehicles	88,196	(26,736)	528	(64,378)	(2,390)
Machinery	-	-	-	(1,123)	(1,123)
Furniture and furnishings	22,489	(18,712)	5,300	(12,255)	(3,178)
Communications equipment	-	-	1,650	(11,075)	(9,425)
Computer hardware	53,057	(35,907)	54,288	(89,087)	(17,649)
Other	50,702	(31,098)	-	(8,129)	11,475
Cellular telephones	2,300	(2,300)	-	(238)	(238)
Immaterial value assets	158	(158)	3,469	(3,469)	-
Total	**216,902**	**(114,911)**	**65,235**	**(189,754)**	**(22,528)**

5. INVESTMENTS

Equity investments in subsidiaries

At 30 September 2004, equity investments in subsidiaries amounted to € 12,759,942, down € 8,085,958 from 30 September 2003, and comprised the following investments:

(€)	30 Sept. 2003	Additions	Cairo TV merger	Writedowns	30 Sept. 2004
Cairo Directory SpA	-	1,200,000	-	-	1,200,000
Cairo TV SpA	9,296,224	-	(9,296,224)	-	-
Editoriale Giorgio Mondadori SpA	8,112,756	-	-	-	8,112,756
Cairo Sport Srl	33	-	10,296	-	10,329
Cairo Web Srl	132,481	-	-	-	132,481
Il Trovatore SpA	246,857	-	-	-	246,857
Cairo Editore SpA	3,047,519	-	-	-	3,047,519
Cairo Pubblicità Srl	10,000	-	-	-	10,000
TOTAL	**20,845,870**	**1,200,000**	**(9,285,928)**	**0**	**12,759,942**

The Extraordinary General Meeting of shareholders of 20 April 2004 approved the merger by incorporation of the wholly-owned subsidiary Cairo TV SpA into Cairo Communication SpA, the Group parent company. The merger act was signed on 28 June 2004 and filed with the companies register on 30 June, 2004. As outlined in the merger plan, the assets and liabilities of the merged companies are incorporated into the financial statements of Cairo Communication SpA, with effect from 1 October 2003.

In April 2004, Cairo Directory Srl was founded with a share capital of € 10,000, which was later converted into a share company, through a share capital € 2 million infusion. UT Communications (controlling shareholder of Cairo Communication SpA with 62%) participated in this share capital increase and holds a 40% stake in Cairo Directory Srl. The share capital increase was underwritten to a total of € 1.19 million by Cairo Communication Spa (representing 60% of the total share capital) and € 800,000 (40% of the share capital) by UT Communications SpA.

During the period under review, Cairo Communication SpA gave the Group subsidiary Cairo Editore SpA the right to benefit from shares held, equivalent to 51% of the share capital of Editoriale Giorgio Mondadori, until 31 December 2004, as detailed in the notes to Exceptional Income and Expenses. Cairo Communication SpA retains the title to these aforementioned shares.

Legal information on subsidiaries required pursuant to subsection 5 of Article 2427 of the Italian Civil Code is included in Appendix 1. Results from directly and indirectly controlled subsidiaries having the same year-end (30 September 2004) as the parent company were previously certified by their respective Board of

Directors and approved by their respective Shareholders' Meeting. 30 September 2004 results were also reported for subsidiaries with a 31 December 2003 year-end, in order to provide greater transparency.

A comparison is also provided between the Balance Sheet book value and the value derived from the equity method, incorporating adjustments required by Section 4 of Article 2426 of the Italian Civil Code regarding the preparation of the parent company financial statements.

(€ thousands)	**Equity 30 Sept. 2004**	**Net profit/(loss) 30 Sept. 2004**	**% Owned**	**Equity Method value**	**Balance Sheet value**	**Difference in values**
Editoriale Giorgio Mondadori SpA **	12,144	2,843	100%	13,220	8,113	5,107
Cairo Editor *	3,914	778	99.95%	(445)	3,048	(3,493)
Cairo Web Srl	155	(4)	100%	155	132	23
Il Trovatore SpA *	(78)	(137)	80%	100	247	(147)
Cairo Sport Srl	10	-	100%	10	10	-
Cairo Pubblicità Srl	10	10	100%	10	10	-
Cairo Directory*	1,901	(99)	60%	1,141	1,200	(59)
Total				**14,191**	**12,760**	**1,431**

* Financial results at 30 September 2004, prior to consolidation

** Consolidated financial results at 30 September 2004, (includes Immobiledit Srl and Anabasi Srl subsidiary results).

The book value of the Company's shareholdings in Cairo Editore, Il Trovatore and Cairo Directory is respectively € 3.5 million, € 147 thousand and € 58 thousand higher than their value derived from the application of the equity method. In all three cases, these differences do not represent a permanent decline in value for these companies as regards their future profitability prospects. In particular, the difference relating to Cairo Editore is linked primarily to the distribution of dividends during the course of this financial year.

Consolidated financial statements have been prepared for the Group's parent company and subsidiaries in order to provide comprehensive information on the Group's activities as a single economic entity.

Financial receivables from subsidiaries

These amounted to € 1,186,457, a € 5 thousand decrease from 30 September 2003

Financial receivables from subsidiaries relate to non-interest bearing receivables from Cairo Web Srl, Cairo Sport Srl and Editoriale Giorgio Mondadori SpA, which are not treated as equity items.

(€)	**30 Sept. 2003**	**New financing**	**Repayments**	**Write-offs**	**30 Sept. 2004**
Cairo Sport	5,000	-	-	(5,000)	-
Cairo Pubblicità	-	1,500	-	(1,500)	-
Editoriale Giorgio Mondadori SpA	800,000	-	-	-	800,000
Cairo Web Srl	386,457	-	-	-	386,457
Total	**1,191,457**	**1,500**	**-**	**(6,500)**	**1,186,457**

6. RECEIVABLES

Trade accounts receivable

At 30 September 2004, trade accounts amounted to € 52,557,846 up € 9,452,145 from 30 September 2003 (down € 8,373,576 from 30 September 2003 proforma) and comprised the following amounts:

(€)	30 Sept. 2003	30 Sept. 2003 Proforma	30 Sept. 2004	Change	Change Proforma
Gross book value	46,090,217	64,752,656	57,883,628	11,793,411	(6,869,028)
Allowance for doubtful accounts	(2,984,516)	(3,821,234)	(5,325,782)	(2,341,266)	(1,504,548)
Total	**43,105,701**	**60,931,422**	**52,557,846**	**9,452,145**	**(8,373,576)**

Trade accounts receivable are recorded net of an allowance for doubtful accounts that incorporates estimates of both specific collection risks and general market collection risks. This allowance also takes into account the allocation to the Company's media clients that it represents of a percentage of losses on receivables, equal to the percentage of revenues allocated, pursuant to advertising space sales contracts signed between the two parties. The allowance for doubtful accounts also takes into account the risk of bad debts relating to other receivables.

Trade receivables from subsidiaries

At 30 September 2004, trade receivables from subsidiaries amounted to € 3,728,584 down € 7,182,063 from 30 September 2003 (up € 3,539,899 from 30 September 2003 proforma), and comprised the following amounts:

(€)	30 Sept. 2003	30 Sept. 2003 Proforma	30 Sept. 2004
Cairo TV SpA	10,721,962	-	-
Cairo Web Srl	56,400	56,400	57,600
Editoriale G. Mondadori SpA	46,481	46,481	625,195
Cairo Editore SpA	-	-	2,831,806
Il Trovatore SpA	85,804	85,804	112,255
Cairo Directory	-	-	101,728
Total	**10,910,647**	**188,685**	**3,728,584**

The other receivable amounts relate primarily to corporate services provided to these companies by the Company. These services are carried out based on annual contracts, renewable on a yearly basis.

Receivables from Cairo Editore also include the figure relating to the dividend payable, decided by the Shareholders' Meeting of this subsidiary of 29 September 2004 and paid on 1 October 2004.

Other receivables

At 30 September 2004, other receivables amounted to € 4,539,170 up € 774,999from 30 September 2003 (up € 428,744 from 30 September 2003 proforma) and comprised the following amounts:

(€)	30 Sept, 2003	30 Sept, 2003 Proforma	30 Sept, 2004	Change	Change Proforma
Current					
Prepaid income tax credit receivable	658,830	884,869	1,549,030	890,200	664,161
Interest withholdings receivable	-	-	-	-	-
IRPEG receivable	-	27,000	-	-	(27,000)
IRAP receivable	-	-	-	-	-
VAT receivable	172,014	172,014	182,366	10,352	10,352
Dividend tax credit receivable	208,420	208,420	-	(208,420)	(208,420)
Receivables from others	2,679,205	2,766,922	2,756,573	77,368	(10,349)
Non-Current					
Prepaid income tax credit receivable	45,702	51,201	51,201	5,499	-
Total	**3,764,171**	**4,110,426**	**4,539,170**	**774,999**	**428,744**

Direct tax receivables comprise overpayment of current tax liabilities and receivables relating to refunds lodged.

Prepaid tax receivable arises from the temporary differences arising between tax and accounting values on expenses and liabilities at 30 September 2004.

Receivables from Edit Srl and others comprise € 2.4 million in receivables owed to it by the publisher Edit Srl, pursuant to a 2001 licensing agreement. Cairo Communication, Edit and Edibella23 (cessionary during March 2004 for the branch of the company dealing with "Bella" magazine) together made an early withdrawal from the advertising sales contract at 31 March 2004. An arrangement has been agreed and accepted by Edit and endorsed by Prima Editoriale, parent company of Edit and Edibella (with their declaration of renunciation of the right to recourse). This consists of payment to Edit of € 2.7 million, net of interest calculated on a lump-sum basis, by way of 32 payments on a consecutive monthly basis from May 2004. If even one payment is missed, the terms for all future payments are forfeited. With regard to the agreed plan of re-entry, the expiry dates of the instalments for August, September and October remain partially outstanding. Edit has gone into voluntary liquidation and it is forecast that Edit will try to conclude a procedure of preventive agreement. Thus the shares necessary to recoup the money outstanding (€ 2.4 million at 30 September 2004,) including an examination of the guarantees given by Prima Editoriale in the first instance, will be activated.

As detailed above, the allowance for doubtful accounts also takes into account the risk of bad debts relating to other receivables, an in particular to Edit Srl.

7. MARKETABLE SECURITIES

Marketable securities at 30 September 2004 comprised € 764,546 in treasury shares, (€ 1,194,708 at 30 September 2003), € 5,999,925 in insurance financial products and € 82,272 in other securities, both figures unchanged since last year.

Treasury shares

At 30 September 2004, the Company held 26,224 of its own shares, with a par value of € 0.52 each, valued at their weighted-average cost of € 19.43 per share, compared to an average September 2004 share price of € 27.09. Between 30 September 2004 and the date of preparation of these financial statements, 26,000 treasury shares have been sold at € 29.67 per share.

These shares were acquired pursuant to the share buyback programme authorised by the Shareholders' Meetings of 17 December 2003, as described in the "Other Information Regarding Italian Civil Code Article 2428 Sections 3 and 4" of the Directors' Report.

Insurance financial products and non-Group marketable securities

The Company has subscribed to a € 6 million insurance financial product, Elios Coupon, offered by Antonveneta Vita. This insurance policy provides a minimum annual return of 3% net of management fees. This policy provides for early reimbursement without penalty before the December 2004 expiry date.

In addition, the Company holds as marketable securities Italian State Treasury Bonds maturing in July 2007 totalling € 87,272.

8. BANK AND CASH

At 30 September 2004, bank and cash amounted to € 97,859,597, up € 11,243,529 from 30 September 2003 (an increase of € 3,901,722 from 30 September 2003 proforma), and comprised the following amounts:

(€)	30 Sept. 2003	30 Sept. 2003 Proforma	30 Sept. 2004	Change	Change Proforma
Bank	86,615,046	93,956,453	90,714,338	4,099,292	(3,242,115)
Surety deposit	-	-	6,994,696	6,994,696	6,994,696
Cash	1,022	1,422	150,563	149,541	149,141
Total	**86,616,068**	**93,957,875**	**97,859,597**	**11,243,529**	**3,901,722**

Net financial assets includes a surety deposit of € 6,985,651 (€ 6,994,696 net of interest accrued) made by Cairo Communication SpA pending the arbitrator's decision regarding the dispute between Cairo Communication and Tele+ SpA, as described in the Note 14 to the Parent Company financial statements.

This deposit was made as a result of a settlement agreement reached by the parties during appeal proceedings for a precautionary seizure requested by the Company before the Court at Milan, as a guarantee on the Company's right to damages from Tele+ SpA. The Company had announced their claim for damages during the arbitration proceedings undertaken by Tele+, in case the 10-year advertising contract for Tele+ were not taken over by Sky Italia (according to the questions posed by the Company during arbitration with the latter, the decision on which has been expected for some months now) and instead was held by Tele+. Cairo Communication has lodged the requisite funds in accordance with Tele+ accounts from 2004, awaiting the arbitrators' decision.

The money order deposited at the bank prescribes the ways in which the parties may settle the sum in the account with a single or double signature, in view of the outcome of the arbitrators' award. The interest payable from the opening date of the account to the date of closure will be paid along with the principal, pro-rata, to the appropriate parties.

Cairo and Tele+ have already met to seek an alternative solution for this deposit, by way of a current account held in the names of both companies, which is currently being formalised.

Evolution of Company Net Financial Position

(€)	30 Sept. 2003	30 Sept. 2003 Proforma	30 Sept. 2004	Change	Change Proforma
Bank and cash	86,616,068	93,957,875	97,859,597	11,243,529	3,901,722
Insurance financial product	82,272	82,272	82,272	-	-
Non-Group marketable securities	5,999,925	5,999,925	5,999,925	-	-
Bank loans and other financing	-	-	(7,876)	(7,876)	(7,876)
Net Financial Assets	**92,698,265**	**100,040,072**	**103,933,918**	**11,235,653**	**3,893,846**
Borrowings from subsidiaries	(4,984,569)	(4,984,569)	(4,884,569)	100,000	100,000
Net Financial Position	**87,713,696**	**95,055,503**	**99,049,349**	**11,335,653**	**3,993,846**

9. PREPAID EXPENSES AND ACCRUED INCOME

At 30 September 2004, prepaid expenses and accrued income amounted to € 790,674 up € 361,596 from 30 September 2003 (an increase of € 291,670 from 30 September 2003 proforma), and comprised the following items:

(€)	30 Sept. 2003	30 Sept. 2003 Proforma	30 Sept. 2004	Change	Change Proforma
Prepaid expenses	157,093	157,093	143,108	(13,985)	(13,985)
Accrued income	271,985	341,911	647,566	375,581	305,655
Total	**429,078**	**499,004**	**790,674**	**361,596**	**291,670**

Accrued income at 30 September 2004 relates primarily to interest earned on the financial insurance product "Elios Coupon" from Antonveneta Vita.

Prepaid expenses consist primarily of costs relating to advertising contracts, insurance costs and general costs, determined using the matching principle.

10. EQUITY

At 30 September 2004, Company equity amounted to € 130,804,198, down € 5,471,232 on 30 September 2003, and comprised the following items:

(€)	Share capital	Share premium	Legal reserve	Treasury share reserve	Merger surplus	Retained earnings and other reserves	Net profit	Total
30 Sept. 2003	**4,030,000**	**112,871,055**	**806,000**	**1,194,708**	**927,945**	**6,196,442**	**10,249,280**	**136,275,430**
2002-2003 FY net profit allocation	-	(2,281,920)	-	-	-	149,280	(10,249,280)	(12,381,920)
Stock options subscription	43,857	1,788,007	-	-	-	-	-	1,831,864
Treasury share reserve allocation	-	-	-	(430,162)	-	430,162	-	-
2003-2004 FY net profit	-	-	-	-	-	-	5,078,823	5,078,823
30 Sept. 2004	**4,073,857**	**112,377,142**	**806,000**	**764,546**	**927,945**	**6,775,885**	**5,078,823**	**130,804,198**

Shareholders of Cairo Communication SpA approved at their Meeting of 17 December 2003 the payment of € 12.4 million in cash dividends (€ 1.60 per share), to holders of Company shares (excluding treasury shares). The dividend comprised € 0.295 per share from the share premium reserve and € 1.305 per share from the 2002-2003 financial year net profit.

On 10 December 2003, the Board of Directors of Cairo Communication SpA allocated the second block of shares pursuant to the stock option plan approved by the Extraordinary General Meeting of 19 April 2000 and approved the allocation provisions concerning the aforementioned options to specific beneficiaries, as described in the Directors' Report. This block includes the options not exercised from the first block, and thus options have been granted for 88,000 shares, with an exercise price not exceeding € 21.72 per share.

At 30 September 2004, the final date for the exercise of the second block of shares pursuant to the stock option plan, rights had been exercised of 84,340 shares, equivalent to a share capital increase of € 43,856.80, and a share premium increase of € 1.78 million.

11. PROVISIONS FOR LIABILITIES AND CHARGES

Provision for retirement benefits

At 30 September 2004, the provision for retirement benefits amounted to € 625,506 up € 245,274 on 30 September 2003, and comprised the following items:

(€)	30 Sept. 2003	Cairo TV merger	Disbursements	Charges	30 Sept. 2004
Employee provisions	211,273	79,599	(35,068)	110,230	366,034
Manager provisions	168,949	15,284	(3,717)	78,956	259,472
Total	**380,222**	**94,883**	**(38,785)**	**189,186**	**625,506**

Analysis of Company's workforce size by job classification

	30 Sept. 2003	Cairo TV merger	Other movements	30 Sept. 2004	2003-2004 FY average
Managers	9	1	-	10	10
Supervisors	5	2	3	10	9
Employees	37	5	5	47	44
Total	**51**	**8**	**8**	**67**	**63**

Provisions for disputes and other charges

At 30 September 2004, the provision for disputes and other charges amounted to € 622,645 up € 294,743 on 30 September 2003, and comprised the following items:

(€)	30 Sept. 2003	Cairo TV merger	Used	Charges	30 Sept. 2004
Client indemnity	327,902	162,164	-	92,999	583,065
Deferred tax provision	-	-	-	39,580	39,580
Total	**327,902**	**162,164**	**-**	**132,579**	**622,645**

12. LIABILITIES

Trade payables

At 30 September 2004, trade payables amounted to € 40,243,095, up € 7.649.145 from 30 September 2003 (down € 4,427,771 from 30 September 2003 proforma).

Subsidiary payables

At 30 September 2004, subsidiary payables amounted to € 13,797,430 up € 4,455,294 from 30 September 2003 (up € 4,455,294 from 30 September 2003 proforma), and arising from services provided by the following subsidiaries to the Company:

(€)	30 Sept. 2003	30 Sept. 2003 proforma	30 Sept. 2004
Editoriale Giorgio Mondadori SpA	2,171,264	2,171,264	2,167,795
Cairo Editore SpA	2,036,798	2,036,798	6,567,014
Cairo Web Srl	112,000	112,000	102,535
Il Trovatore	10,800	10,800	0
Immobiledit Srl	5,011,274	5,011,274	4,960,086
Total	**9,342,136**	**9,342,136**	**13,797,430**

Subsidiaries commercial payables

Payables to Editoriale Giorgio Mondadori SpA and Cairo Editore relate mainly to fees due to these companies arising from the sale of advertising space on behalf of magazines. Payables to Cairo Web relate to fees paid to the latter for the maintenance of the Company's web site. Payables to Il Trovatore relate to current contracts regarding IT support services and Internet access.

Subsidiaries financial liabilities

These consist of € 4,884,569 in funds borrowed at market rates from its newly consolidated subsidiary Immobiledit Srl, in order to optimise the Group's treasury management.

Tax liabilities

At 30 September 2004, tax liabilities amounted to € 1,610,900, up € 368,830 from 30 September 2003 (up € 368,830 from 30 September 2003 proforma), and comprised the following items:

(€)	30 Sept. 2003	30 Sept. 2003 proforma	30 Sept. 2004
VAT	-	320,216	-
Income tax for this year	-	245,212	1,419,751
Tax liabilities relating to Law No. 289/2002	352,371	525,299	-
Payroll deductions - employees	53,212	83,811	49,972
Payroll deductions – contract workers	65,060	65,060	81,206
Other	2,472	2,472	59,971
Total	**473,115**	**1,242,070**	**1,610,900**

Cairo Communication SpA and some of its subsidiaries, after taking into account the diversity and number of tax provisions and their difficulty of application, have elected to comply with the provisions of Law 289 of 4 December 2003 as prescribed in Articles 8 and 9, for direct taxation purposes only. The Group will then continue with the procedures relating to the pending areas of contention regarding direct tax and VAT, pursuant to the procedure of Article 15 of said law.

Social security liabilities

At 30 September 2004, social security liabilities amounted to € 175,588 all current in nature, up € 24,276 from 30 September 2003 (a drop of € 21,556 from 30 September 2003 proforma).

Other liabilities

At 30 September 2004, other liabilities amounted to € 3,436,365 up € 500,059 from 30 September 2003 (an increase of € 318,413 from 30 September 2003 proforma), and comprised the following amounts:

(€)	30 Sept. 2003	30 Sept. 2003 proforma	30 Sept. 2004
RCS Periodici liability	1,808,583	1,808,583	2,188,523
Various	1,127,723	1,309,369	1,247,842
Total	**2,936,306**	**3,117,952**	**3,436,365**

The RCS Periodici liability relates to receivables whose collection is unlikely and whose loss has yet to be recognised.

13. ACCRUED EXPENSES

At 30 September 2004, accrued expenses amounted to € 60, unchanged from 30 September 2003.

(€)	30 Sept. 2003	30 Sept. 2003 proforma	30 Sept. 2004	Change	Change proforma
Accrued expenses	**60**	**60**	**60**	**-**	**-**

Accrued expenses and deferred income are calculated in accordance with the matching principle.

14. OFF-BALANCE SHEET COMMITMENTS AND GUARANTEES

GUARANTEES

Guarantees primarily relate to a € 19 million guarantee given to Banca Antonveneta regarding assurances given by the latter to TV Internazionale SpA (Telecom Group) regarding the payment of minimum guaranteed fees specified in its contract with the La7 television network, which grant Cairo the exclusive rights to sell advertising time on this network channels. This guarantee expires on 15 June 2005 and is renewable annually for an amount not greater than that of the preceding year, with predetermined mechanisms in place for the reduction of the commitment. Guarantees at 30 September 2004 were those relating to subsidiary companies in the amount of € 641,749 and to third parties in the amount of € 72,673, relating primarily to rental contracts.

COMMITMENTS

On 9 November 2003, Cairo Communication SpA signed a three-year contract (2003-2005) with TV Internazionale SpA (Telecom Group), broadcaster of the La7 TV network, and renewable for another three-year period if certain agreed objectives are met, giving Cairo the exclusive rights to sell advertising space on its channels. The contract provides for average minimum guaranteed fees of € 45.8 million per year over three years, with the first year comprising an entrance fee of € 7.5 million and a minimum guarantee fee of € 37.4 million. La7 has given a commitment to maintain predetermined viewing audience numbers. Cairo International SpA gave a guarantee concerning minimum payments it will make to TV International SpA. The money order discussed above was issued as a guarantee for the payment of this figure.

DISPUTE WITH SKY ITALIA

The Group subsidiary, Cairo TV SpA, merged by incorporation during June 2004, signed in 1998 an exclusive ten-year contract with the Tele+ television network.

2003 was a watershed year for the Italian pay TV market, with the arrival of Sky and the creation of a single satellite pay TV network for Italy from the merger of the Tele+ and Stream satellite TV networks as authorised by the European Commission. Subsequently, it has emerged that, as part of this operation, the broadcasting companies in the Tele+ Group were taken over by Sky Italia (formerly Stream SpA) and the_share capital of Tele+ SpA was given to a subsidiary of Sky Italia. Since 31 July 2003, advertising time sales by Cairo TV have been limited to Italian Premier League Football (Serie A) matches, both live and time delayed broadcasts, as well as the Diretta Gol, Calcio Sky and other sports shows broadcast on Sky Sport 1. From 1 July 2004, all advertising time sales by Cairo TV were stopped.

In December 2003, Cairo TV, having nominated Guido Rossi as its arbitrator, entered into arbitration proceedings regarding its right of execution of a contract it holds, signed with Tele+ in May 1998. Cairo TV is also seeking a restraining order in relation to Sky Italia Srl regarding the violation of this exclusive contract, and damages for the non-fulfilment of the contract by Sky Italia Srl. Sky Italia Srl has nominated Piero Schlesinger as its arbitrator and the two arbitrators jointly nominated Riccardo Luzzato chairman of the Board of Arbitrators. Sky Italia is contesting these claims through the Board of Arbitrators, denying having entered into the contract, which they seek to void pursuant to Cairo TV's alleged failure to discharge its responsibilities.

Prior to the arbitration process, Cairo TV had never received any notice of breach of agreement, and continues to post exceptional advertising time sales results, which have nearly tripled during the first five years, despite the failure on the part of the Tele+ Group to have reached the subscription levels forecast in the contract. Thus, it is Cairo TV's view that this agreement will be extended for a further 2 to 3 years beyond its current scheduled expiry date of 31 December 2007, as existing agreement conditions have been fulfilled. Arbitration is ongoing. The process by which documentation must be produced and by which all matters and claims may be resolved has been established.

Advertising time sales on Sky channels have generated € 36 million in revenue during the October 2003 – June 2004 period (€ 2 million net of ad time fees and agency discounts), which represents 19% of the € 188 million in total revenue realised at Group level during the 2003-2004 financial year.

From June 2004, Tele+ launched arbitration proceedings against Cairo TV SpA, nominating Vittorio Colesanti as arbitrator. They have requested the resolution of a contract on the grounds of breach of agreement on the part of Cairo TV. Tele+ considers this contract to be held personally, not representing the Tele+ operating companies. It concerns the same breach of agreement raised in the other arbitration by Sky Italia, which was never raised by Tele+ until their deal with Sky. They are claiming costs from Cairo TV. Cairo Communication, incorporating Cairo TV, has nominated Guido Rossi as arbitrator and has announced in advance that it will request that the Arbitration Board reject the accusations of Tele+ on the basis that they are without foundation and has announced their intention to pursue compensation from Tele+.

The Board of Arbitrators held a hearing on 28 September 2004 with the nominated Chairman of the Board, Prof. Raffaele Nobili. The Board are expected to fix the terms by which written defence statements may be lodged.

The Directors feel that the outcome of this arbitration will have no impact on the 30 September 2004 accounts.

15. CONTINGENCIES

1. The Group subsidiary Cairo Web Srl has initiated legal proceedings against Soldionline.it SpA, arising from an advertising space sales contract, which expired on 31 August 2002. Pursuant to the provisions of this contract, Cairo Web Srl is seeking payment of € 377,000 owed to it, which is included in net assets. Soldionline.it SpA has appeared in court, contesting the claim on grounds of contractual non-fulfilment by Cairo Web Srl, regarding advertising space sales commitments and seeking compensation for damages. As this claim has no foundation, no provision has been established.

2. A former shareholder of the Group's subsidiary Il Trovatore SpA, who was not involved in the sale of this firm to the Group, has initiated proceedings against the current minority shareholders, which indirectly involves Cairo Communication SpA, claiming that the contract through which he sold his share in the limited partnership Il Trovatore was null and void, as was the transformation of same into a limited liability company. He is also requesting that the subsequent contract of purchase by Cairo Communication be voided. Based on legal advice received, no provision has been established in light of the unfounded nature of this claim.

3. Immobiledit Srl has been in litigation with a buyer regarding the cancellation of a previous preliminary sale contract of a building in Via Ponti, Milan. This case was settled in favour of Immobiledit Srl, with judgement No. 4729, of 27 April 2004. The court dismissed all claims by the other party and further, by request of Immobiledit Srl, declared the contract annulled (and its subsequent renewal), due to contractual non-fulfilment on the part of the claimant, who was declared liable to pay damages to Immobiledit Srl, to be established in a separate court sitting, and all costs. The claimant lodged an appeal. Examining the sentence, the appeal and appearance of reply, following legal advice, the Board of Directors of this subsidiary company feel that the topics raised in the appeal by the claimant will not lead to any concrete or consistent risk of the original sentence being modified by the Appeal Court.

16. LIABILITIES AND RECEIVABLES DUE AFTER FIVE YEARS

At 30 September 2004, the Company had no receivables or liabilities that were due after 5 years.

17. CAPITALISED FINANCE EXPENSES

The Group did not capitalise any of its finance expenses.

PARENT COMPANY INCOME STATEMENT NOTES

The following notes detail the major revenues realised and expenses incurred by the Company during its 2003-2004 financial year ending 30 September 2004. Due to the effects of the incorporation of Cairo TV SpA, figures relating to the time prior to 30 June 2004 have been eliminated.

18. OPERATING REVENUES

Company 2003-2004 financial year gross operating revenues amounted to € 134,249,015, up € 32,889,586 over the previous financial year (an increase of € 11,018,132 from 30 September 2003 proforma).

Sales and net sales

Company 2003-2004 financial year sales amounted to € 154,536,896 up € 41,977,077 over the same period last year (an increase of € 13,701,358 from 30 September 2003 proforma), and comprised the following:

(€)	**2001-2002 FY**	**2001-2002 FY proforma**	**2003-2004 FY**
Stadium advertising space sales	88,082	88,082	-
Print media advertising space sales	42,696,571	42,696,571	29,805,966
TV advertising space sales	67,588,437	97,724,156	124,513,315
Electronic billboard sales	113,114	113,114	10,000
Group services	2,073,615	213,615	207,615
Sales	**112,559,819**	**140,835,538**	**154,536,896**
Less: advertising agency discounts	(12,671,003)	(19,527,359)	(22,023,041)
Net sales	**99,888,816**	**121,308,179**	**132,513,855**

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

Apart from providing advertising services directly to many sectors, due to its structures in the areas of administration, auditing, financial analysis, management, information systems, debt recovery and marketing, the Company also provides services in these areas to other Group companies.

The Company realised sales with the following Group companies:

(€)	**2001-2002 FY**	**2001-2002 FY proforma**	**2003-2004 FY**
Cairo TV SpA	1,860,000	-	-
Cairo Web Srl	6,000	6,000	-
Il Trovatore SpA	21,691	21,691	21,691
Editoriale Giorgio Mondadori SpA	185,924	185,924	185,924
Total	**2,073,615**	**213,615**	**207,615**

During the year, some of the rebilled figures relating to Group companies, which are contractually regulated, were reviewed in consideration of the type of service offered and the volume of activity.

Other operating revenues

These amounted to € 1,735,160, an increase of € 264,547 over the previous financial year (down € 187,545 from 30 September 2003 proforma), and comprised the following amounts:

(€)	2001-2002 FY	2001-2002 FY proforma	2003-2004 FY
Rebilled agent and employee costs	51,294	63,267	74,433
Rebilled stadium material costs	7,881	7,881	(4,132)
Rebilled technical costs	835,514	835,514	420,204
Rebilled print media technical costs	115,414	125,043	19,495
Rebilled print media receivable loss	-	-	140,866
Intra-Group rebilled print media receivable	-	-	112,538
Other rebillings	76,990	406,624	444,467
Gain on asset disposal	383,520	484,376	527,289
Total	**1,470,613**	**1,922,705**	**1,735,160**

19. OPERATING EXPENSES

Company 2003-2004 financial year operating expenses amounted to € 131,588,841, up € 35,267,452 over last year (up € 13,761,203 from 30 September 2003 proforma data), and comprised the following items:

Advertising time/space fees and other services

These amounted to € 117,794,009 for the 2003-2004 financial year, up € 29,966,285 over the previous financial year (up € 11,712,313 from 30 September 2003 proforma data), and comprised the following:

(€)	2001-2002 FY	2001-2002 FY proforma	2003-2004 FY
Ad space fees - print media and billboards	33,839,740	33,839,740	23,065,718
Ad time fees - stadiums	110,176	110,176	-
Ad time fees - TV	25,022,314	59,851,987	81,945,313
Ad TV time fees - Cairo TV subcontract	19,861,263	-	-
Commissions	112,000	112,000	336,000
EGM license	-	-	112,500
Commission	3,928,325	5,110,070	4,789,536
Negotiation rights	1,208,139	2,179,774	1,919,802
Consultancy fees	640,642	640,642	1,356,591
Board of Directors’ fees Cairo Communication	352,183	352,183	325,000
Board of Directors’ fees Cairo TV	-	431,392	482,447
Board of Auditors’ fees Cairo Communication	47,940	47,940	47,939
Board of Auditors’ fees Cairo TV	-	12,911	8,525
General administrative costs	2,431,981	2,951,963	3,041,678
Technical costs	273,021	440,918	362,961

Total	**87,827,724**	**106,081,696**	**117,794,009**

2003-2004 financial year advertising time/space fees and other services included the following expenses:

- € 9.6 million in advertising space fees paid to Editorial Giorgio Mondadori pursuant to its contract to sell advertising space in the "Airone", "Arte" "Bell'Italia"; "Bell'Europa", "In Viaggio", "Gardenia", and "Antiquariato" magazines
- € 9.8 million in advertising space fees paid to Cairo Editore pursuant to its contract to sell advertising space in "For Men Magazine" and "Natural Style" magazines.
- € 112,500 paid to Editoriale Giorgio Mondadori SpA for the use of trademarks, including titles.
- € 72 thousand in rebilled expenses from Editore Giorgio Mondadori SpA linked to the use of space at its premises at 55 Corso Magenta, Milan, for the half-year.
- € 50 thousand in rebilled expenses from Editore Giorgio Mondadori SpA for the staging of the annual Cairo Communication Awards.
- Fees paid to subsidiary Cairo Web.
- € 112 in service fees paid to Il Trovatore for IT support and Internet access.

Rental expenses

These expenses amounted to € 563,948, up € 82,808 over the previous financial year (up € 15,736 from 30 September 2003 proforma).

Other operating expenses

These expenses amounted to € 524,075, which represents an increase of € 351,971 over the previous financial year, (down € 174,282 from 30 September 2003 proforma).

20. FINANCE INCOME AND EXPENSES

Finance Income

Company 2003-2004 financial income amounted to € 5,122,487, down € 5,139,314 over the previous financial year (up € 2,440,485 from 30 September 2003 proforma), and comprised the following amounts:

(€)	2001-2002 FY	2001-2002 FY proforma	2003-2004 FY
Subsidiaries finance income			
Subsidiaries dividend income	7,682,908	-	2,398,800
Total subsidiaries dividend income	**7,682,908**	**-**	**2,398,800**
Other subsidiaries income			
- Cairo Directory	-	-	836
- Cairo TV	20,470	-	-
- Il Trovatore	258	258	421
Total finance income from subsidiaries	**7,703,636**	**258**	**2,400,057**
Other finance income			
Bank interest	2,360,192	2,483,771	1,748,380
Marketable securities	196,200	196,200	191,389
Marketable securities other income	-	-	710,231
Various	1,773	1,773	72,430
Total other finance income	**2,558,165**	**2,681,744**	**2,722,430**
Total finance income	**10,261,801**	**2,682,002**	**5,122,487**

Subsidiaries dividend income comprised the receipt of dividends from the subsidiary Cairo Editore SpA, recognised by right at 30 September 2004. Subsidiary dividend income at 30 September 2003 related to dividends received by Group subsidiary Cairo TV SpA, plus the related tax credit, which were not taken into account when the proforma financial statements for the 2002-2003 financial year were being prepared.

Marketable securities income includes capital gains totalling € 625 thousands realised during the year on the sale of treasury shares.

Finance expenses

Company 2003-2004 financial year financial expenses amounted to € 196,004, down € 18,014 over last year (a decrease of € 18,112 from 30 September 2003 proforma), and comprised the following amounts:

(€)	2002 -2003 FY	2002 -2003 FY proforma	2003-2004 FY
Bank interest expenses	338	436	7,028
Other interest expenses	78,234	78,234	87,558
Group borrowings interest expenses	135,446	135,446	101,418
Total	**214,018**	**214,116**	**196,004**

All borrowings interest expenses related to a loan from Immobiledit Srl.

21. INVESTMENT WRITEDOWNS

During 2003-2004, the Company realised writedowns of € 5,000 on its investment in Cairo Sport, and € 1,500 on its investment in Cairo Pubblicità, in order to reflect permanent declines in value.

22. EXCEPTIONAL INCOME AND EXPENSES

During the period under review, Cairo Communication SpA gave the Group subsidiary Cairo Editore SpA the right to benefit from shares held, equivalent to 51% of the share capital of Editoriale Giorgio Mondadori, until 31 December 2004. Cairo Communication SpA retains the title to these aforementioned shares.

As described in the notes to the tax requirements for the 2003-2004 financial year, exceptional expenses include the € 129 thousand cost of complying with the provisions of Law 289 of 27 December 2003, as set in Articles 8 and 9, for direct taxation purposes and procedures relating to the pending areas of dispute regarding direct tax and VAT, pursuant to the said law's Article 15 procedure.

Cost of complying with the provisions of Law 289 of 27 December 2003, as set in Articles 8 and 9, for direct taxation purposes and procedures relating to the pending areas of dispute regarding direct tax and VAT, pursuant to the said law's Article 15 procedure.

23. INCOME TAX

Company 2003-2004 financial year income tax amounted to € 2,387,724, down € 1,053,274 over the previous financial year (an increase of € 668,689 from 30 September 2003 proforma data).

In accordance with Italian Accounting Principle no. 25, the Group recognised some prepaid income tax relating to some Group companies' deferred tax deductions (writedown provision credits).

(€)	**2002-2003 FY**	**2002-2003 FY Proforma**	**2003-2004 FY**
Current			
- IRPEG	3,316,052	1,490,361	2,502,756
- IRAP	383,792	531,216	509,549
Prepaid income tax	(258,846)	(302,542)	664,161
Deferred income tax	-	-	39,580
Total	**3,440,998**	**1,719,035**	**2,387,724**

OTHER NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

24. BOARD OF DIRECTORS' AND BOARD OF AUDITORS' REMUNERATION

Pursuant to Article 2427, Section 16 of the Italian Civil Code and stipulations by CONSOB (Italian Stock Exchange Supervisory Commission), the Group discloses the following remuneration awarded to the Board of Directors and Board of Auditors of Cairo Communication SpA for services rendered to the parent company and its subsidiaries during the financial year ending 30 September 2004:

Name	**Position**	**Term expiry date**	**Directors fees** (€ thousands)			**Other Remuneration** (€ thousands)		
			Parent Company	Cairo TV	Subsidiaries	Non-monetary	Bonuses	Other
Board of Directors								
Urbano R Cairo	Chairman	30 Sept. 2005	148	86	10	-	-	-
Uberto Fornara	Vice-Chairman & CEO	30 Sept. 2005	63	256	10	-	-	187
Roberto Cairo	Director	30 Sept. 2005	18	-	-	-	-	-
Antonio Ferraro	Director	30 Sept. 2005	18	-	-	-	-	
Marco Janni	Director	30 Sept. 2005	20	-	-	-	-	-
Antonio Magnocavallo	Director	30 Sept. 2005	20	-	10	-	-	-
Marco Pompignoli	Director	30 Sept. 2005	18	86	10	-	-	100
Roberto Rezzonico	Director	30 Sept. 2005	20	-	-	-	-	-
Board of Auditors								
Mauro Sala	Chairman	30 Sept. 2005	20	-	11	-	-	-
Marco Baccani	Principal Auditor	30 Sept. 2005	14	-	4	-	-	-
Enrico Muscato	Principal Auditor	30 Sept. 2005	14	-	11	-	-	-

The Annual General Meeting of Shareholders of 17 December 2003 approved the € 150,000 in compensation for the Board of Directors. The Board of Directors meeting on 26 November 2003 approved, pursuant to Article 2389 of the Italian Civil Code, compensation of € 130,000 for the Chairman, Urbano Cairo and compensation of € 45,000 each for the current CEO Uberto Forara.

25. SHARE CAPITAL COMPOSITION

At 30 September 2004, Cairo Communication SpA share capital amounted to € 4,073,856.80, comprising 7.83 million shares with a par value each of € 0.52.

Chairman of the Board of Directors

Urbano R. Cairo

APPENDIX 1
SUBSIDIARIES' LEGAL INFORMATION
(Article 2427 of the Italian Civil Code)

SUBSIDIARIES – DIRECTLY CONTROLLED

Name:	**Editoriale Giorgio Mondadori SpA**
Head Office:	Corso Magenta 55 - Milan - Italy
Share Capital:	€ 6,204,000
Equity at 31 December 2003:	10,138,435
2002-2003 Financial Year Net Profit:	3,147,145
Equity at 30 September 2004:	10,910,247
2003-2004 Financial Year Net Profit at 30 September 2004 (9 months):	771,812
Ownership Percentage:	100%

Name:	**Cairo Editore SpA**
Head Office:	Corso Magenta 55 - Milan - Italy
Share Capital:	€ 1,020,000
Equity at 31 December 2003:	5,347,064
2002-2003 Financial Year Net Loss:	(475,205)
Equity at 30 September 2004:	3,914,109
2003-2004 Financial Year Net Profit (9 months):	965,845
Ownership Percentage:	99.95%

Name:	**Cairo Web Srl**
Head Office:	Via Tucidide 56 - Milan - Italy
Share Capital:	€ 46,800
Equity at 30 September 2003:	159,070
2002-2003 Financial Year Net Loss:	(213,129)
Equity at 30 September 2004:	155,144
2003-2004 Financial Year Net Loss:	(3,926)
Ownership Percentage:	100%

Name:	**Il Trovatore SpA**
Head Office:	Via Tucidide 56 - Milan - Italy
Share Capital:	€ 25,000
Equity at 30 September 2003:	31,337
2002-2003 Financial Year Net Loss:	(118,036)
Equity at 30 September 2004:	(76,163)
2003-2004 Financial Year Net Loss at 30 September 2004 (9 month period):	(107,500)
Ownership Percentage:	80%

Name:	**Cairo Sport Srl**
Head Office:	Via Tucidide 56 - Milan - Italy
Share Capital:	€ 10,400
Equity at 31 December 2003:	10,332
2003 Financial Year Net Loss:	(5,038)
Ownership Percentage:	100%

Name:	**Cairo Pubblicità Srl**
Head Office:	Via Tucidide 56 - Milan - Italy
Share Capital:	€ 10,000
Equity at 31 December 2003:	8,271
2002-2003 Financial Year Net Loss:	(1,279)
Ownership Percentage:	100%

Name:	**Cairo Directory**
Head Office:	Via Tucidide 56 - Milan - Italy
Share Capital:	€ 2,000,000
Equity at 30 September 2004:	1,901,114
2003-2004 Financial Year Net Loss (9 months):	(98,885)
Ownership Percentage:	100%

SUBSIDIARIES – INDIRECTLY CONTROLLED

Name:	**Immobiledit Srl**
Head Office:	Corso Magenta 55 - Milan - Italy
Share Capital:	5,610,000
Equity at 31 December 2003:	5,311,512
2002-2003 Financial Year Net Profit:	51,647
Equity at 30 September 2004:	6,183,707
2003-2004 Financial Year Net Profit (9 months):	822,362
Ownership Percentage:	100%

Name:	**Edizioni Anabasi Srl**
Head Office:	Corso Magenta 55 - Milan - Italy
Share Capital:	€ 10,200
Equity at 31 December 2003:	8,086
2002-2003 Financial Year Net Loss:	(3,426)
Equity at 30 September 2004:	10,535
2003-2004 Financial Year Net Loss (9 months):	(5,551)
Ownership Percentage:	100%

Chairman of the Board of Directors
Urbano R. Cairo

APPENDIX 2A
SUBSIDIARIES' MOST RECENT CONDENSED FINANCIAL STATEMENTS

(€)	Cairo Web 30 Sept. 2003 FY	Il Trovatore 31 Dec. 2003 FY	Cairo Sport 31 Dec. 2003 FY	Cairo Pubblicità 31 Dec. 2003 FY
BALANCE SHEET				
ASSETS				
Intangible assets	11,775	7,007	0	2,129
Property, furniture and equipment	905	50,475	0	
Investments	0	3,873	0	
Total Non-Current Assets	**12,680**	**61,355**	**0**	**2,129**
Inventory	0	0	0	0
Receivables	1,144,072	137,655	2,226	390
Marketable securities	0	0	0	0
Bank and cash	2,369	787	8,992	6,752
Total Current Assets	**1,146,441**	**138,442**	**11,218**	**7,142**
Prepaid expenses and accrued income	39,937	0	0	0
TOTAL ASSETS	**1,199,058**	**199,797**	**11,218**	**9,271**
EQUITY AND LIABILITIES				
Share capital	46,800	25,000	10,400	10,000
Reserves	10,429	0	0	0
Parent company contribution	300,000	124,373	5,000	0
Retained earnings	14,970	0	(30)	0
Financial year net profit/(loss)	(213,129)	(118,036)	(5,038)	(1,279)
Total Equity	**159,070**	**31,337**	**10,332**	**8,721**
Provisions for liabilities and charges	150,000	0	0	0
Liabilities	889,988	165,773	886	550
Accrued expenses and deferred income	0	2,687	0	0
TOTAL EQUITY AND LIABILITIES	**1,199,058**	**199,797**	**11,218**	**9,271**

INCOME STATEMENT				
Operating revenues	118,222	159,372	656	0
Cost of sales	369,948	269,918	1,952	1,340
Gross profit/(loss)	(251,726)	(110,546)	(1,296)	(1,340)
Net finance income/(cost)	(806)	(486)	258	61
Investments writedown	0	0	0	0
Net exceptional income/(expenses)	(10,097)	(7,004)	(4,000)	0
Profit/(loss) before income tax	**(262,629)**	**(118,036)**	**(5,038)**	**(1,279)**
Income tax	49,500	0	0	0
Net profit/(loss)	**(213,129)**	**(118,036)**	**(5,038)**	**(1,279)**

(€)	Immobiledit 30 Sept. 2003 FY	Cairo Editore 31 Dec. 2003 FY	EGM 31 Dec. 2003 FY	Edizione Anabasi 31 Dec. 2003 FY
BALANCE SHEET				
ASSETS				
Intangible assets	0	1,706,872	8,889,850	496
Property, furniture and equipment	0	1,831,894	521,829	0
Investments	0	22,894	5,108,351	0
Total Non-Current Assets	**0**	**3,561,660**	**14,520,039**	**496**
Inventory	0	527,145	1,758,428	0
Receivables	5,405,225	4,584,330	8,015,523	7,627
Marketable securities	0	0	0	0
Bank and cash	1,733,614	2,092,663	926,780	10,265
Total Current Assets	**7,138,839**	**7,204,138**	**10,700,731**	**17,892**
Prepaid expenses and accrued income	4,260	0	122,329	0
TOTAL ASSETS	**7,143,099**	**10,765,798**	**25,343,099**	**18,388**
EQUITY AND LIABILITIES				
Share capital	5,610,000	1,020,000	6,204,000	10,200
Reserves	162,556	204,000	58,755	129
Parent company contribution	0	0	0	1,183
Retained earnings/(cumulative deficit)	(512,690)	4,598,269	728,536	0
Financial year net profit/(loss)	51,647	(475,205)	3,147,145	(3,426)
Total Equity	**5,311,512**	**5,347,064**	**10,138,145**	**8,086**
Provisions for liabilities and charges	1,785,652	65,372	3,206,374	0
Liabilities	45,935	5,353,002	11,961,542	10,302
Accrued expenses and deferred income	0	0	36,748	0
TOTAL EQUITY AND LIABILITIES	**7,143,099**	**10,765,798**	**25,343,099**	**18,388**

INCOME STATEMENT

Operating revenues	**25**	**8,383,776**	**24,642,930**	**1**
Cost of sales	(92,479)	(8,959,716)	(21,469,930)	(3,678)
Gross profit/(loss)	**(92,454)**	**(566,940)**	**3,172,999**	**(3,677)**
Net finance income/(cost)	162,398	14,445	31,658	251
Investments writedown	0	0	0	0
Net exceptional income/(expenses)	(1,800)	(136,739)	0	0
Profit/(loss) before income tax	**68,145**	**(688,875)**	**3,204,658**	**(3,426)**
Income tax	(16,498)	213,670	(57,513)	0
Net profit/(loss)	**51,647**	**(475,205)**	**3,147,145**	**(3,426)**

APPENDIX 2B
SUBSIDIARIES' CONDENSED PROJECTED FINANCIAL STATEMENTS AT 30 SEPTEMBER 2004

(€)	Cairo Web 30 Sept. 2004 FY
BALANCE SHEET	
ASSETS	
Intangible assets	9,078
Property, furniture and equipment	0
Investments	0
Total Non-Current Assets	**9,078**
Inventory	0
Receivables	1,024,452
Marketable securities	0
Bank and cash	52,545
Total Current Assets	**1,077,877**
Prepaid expenses and accrued income	26
TOTAL ASSETS	**1,086,191**
EQUITY AND LIABILITIES	
Share capital	46,800
Reserves	10,429
Parent company contribution	86,871
Retained earnings	14,970
Financial year net profit/(loss)	(3,926)
Total Equity	**155,144**
Provisions for liabilities and charges	150,000
Liabilities	781,487
Accrued expenses and deferred income	0
TOTAL EQUITY AND LIABILITIES	**1,086,191**

INCOME STATEMENT

Operating revenues	380,861
Cost of sales	357,510
Gross profit/(loss)	23,251
Net finance income/(cost)	(2,200)
Investments writedown	0
Net exceptional income/(expenses)	(22,143)
Profit/(loss) before income tax	**(992)**
Income tax	(2,934)
Net loss	**(3,926)**

APPENDIX 3
PARENT COMPANY PROFORMA BALANCE SHEET AT 30 SEPTEMBER 2003

(€ thousands)	30 Sept. 2003 Proforma	30 Sept. 2003
ASSETS		
NON-CURRENT ASSETS		
Intangible Assets		
Incorporation and listing costs	1,457	1,455
Publications development	0	0
TV ad time sales rights and computer software	13,931	6,319
Other	50	29
Total	**15,438**	**7,804**
Property, Furniture and Equipment		
Other	630	528
Total	630	528
Investments		
Shareholdings	11,560	20,846
Group company financial receivables	1,191	1,191
Other financial receivables	38	0
Other	9	9
Total	**12,798**	**22,046**
TOTAL NON-CURRENT ASSETS	**28,865**	**30,378**
CURRENT ASSETS		
Inventory		
Materials and supplies	0	0
Work-in-progress	0	0
Finished products	0	0
Total	**0**	**0**
Receivables		
Trade accounts receivable	60,931	43,106
Unconsolidated subsidiary	1,889	10,911
Other receivables	4,110	3,764
Total	**65,231**	**57,781**
Marketable Securities		
Unconsolidated subsidiary	0	0
Treasury shares	1,195	1,195
Insurance financial products and non-Group securities	6,082	6,082
Total	**7,277**	**7,277**
Bank and Cash		
Bank	93,956	86,615
Cash	1	1
Total	**93,958**	**86,616**
TOTAL CURRENT ASSETS	**166,465**	**151,673**
PREPAID EXPENSES/ACCRUED INCOME	**499**	**429**
TOTAL ASSETS	**195,830**	**182,480**

(€ thousands)	30 Sept. 2003 Proforma	30 Sept. 2003
EQUITY AND LIABILITIES		
EQUITY		
Share capital	4,030	4,030
Share premium	112,871	112,871
Legal reserve	806	806
Treasury share reserve	1,195	1,195
Other reserve	17	17
Merger surplus	928	928
Proforma construction reserve	531	
Retained earnings	11,321	6,179
Financial period net profit	4,576	10,249
TOTAL EQUITY	**136,275**	**136,275**
PROVISIONS FOR LIABILITES & CHARGES		
Provision for employee retirement benefits	494	380
Provision for disputes and other charges	490	327
Provision for deferred taxes	0	0
Other provisions	0	0
TOTAL PROVISIONS FOR LIABILITIES & CHARGES	**984**	**707**
LIABILITIES		
Borrowings		
Current	0	0
Non-current	0	0
Total	**0**	**0**
Other current liabilities		
Advances	0	0
Trade payables	44,671	32,594
Unconsolidated subsidiary payables	9,342	9,342
Tax liabilities	1,242	473
Social security liabilities	197	151
Other	3,118	2,936
Total	**58,570**	**45,497**
TOTAL LIABILITIES	**58,570**	**45,497**
ACCRUED EXPENSES/DEFERRED INCOME	**60**	**60**
TOTAL EQUITY AND LIABILTIES	**195,830**	**182,480**
Off-Balance Sheet Guarantees and Commitments	*23,692*	*23,692*

Chairman of the Board of Directors
Urbano R. Cairo

BOARD OF AUDITORS' REPORT

(pursuant to Art. 153, Legislative Decree 58/'98 and Art. 2429, subsection 3 of the Italian Civil Code)

Milan, Italy **28 December 2004**

Dear Shareholders,

During the course of the financial year ended 30 September 2004, we carried out the supervisory role provided for under Article 149 of Legislative Decree Nº 58 of 24 February 1998. The code of practice recommended by the National Accounting and Auditing Board was followed at all times. In the current report we complied with the principles established by the Consob (National Stock Exchange Supervisory Commission) in memo Nº1025564 of 6 April 2001.
Our work was carried out in observance of the law, the company charter and company bylaws, and in accordance with best practice.

We attended meetings of the Board of Directors and the Shareholders' Meetings. We also obtained information from the Directors, at appropriate intervals, on the activities undertaken by the Company and the major business and financial operations carried out by the Company, subsidiaries and related parties. We also ascertained that the decisions made and actions taken were in accordance with the law and Company charter, and were for the economic benefit of the Company.

Pursuant to our mandate, we also examined the organisational structure of the Company, its compliance with corporate governance practice best principles and the proper execution of instructions given to subsidiaries. This was done through direct observation, the collection of information from those responsible for organisational tasks and meetings with the audit firm, which allowed for reciprocal exchanges of relevant data and information.

Pursuant to our mandate, we oversaw the implementation of a Corporate Governance principles code of conduct within the Company organisation.

We examined and evaluated the appropriateness of the internal control system. We also examined the administrative and accounting system, and its reliability to correctly represent management data, through information obtained from those responsible for the respective functions, the examination of Company documentation and the analysis of the results of work carried out by the Statutory Auditor.

We reviewed the work of the Statutory Auditor regarding the fairness of the Company's book of accounts as well as the work of management in order to establish that the financial year's reports were prepared in accordance with the law.

Pursuant to our mandate, we oversaw the introduction of the process of adjustment in compliance with Legislative Decree No. 6 of 17 January 2003, on company law reform.

We verified the observance of the regulations regarding the preparation and layout of the financial statements and the management report, via direct checks and information gathered by the Statutory Auditor.

In particular, in relation to the financial statements presented to you, we certify that:

- The Directors' Report is in compliance with all current regulations, is consistent with the decisions of the Board of Directors and the financial statement results for the year, and presents a detailed and comprehensive picture of the company's activities.
- The Directors' Report contains the required information regarding the activities of the Company and associated companies, and the process of adjustment in compliance with the code of self governance issued by the Committee for Corporate Governance of listed companies.
- The parent company statements have been prepared in accordance with the framework and structures set out in the relevant regulations. The results are consistent with the facts and information at our disposal.
- The Statutory Auditor, Deloitte & Touche SpA, at the concluding stage of their examination, has informed us that their reports have been prepared and that both sets of financial statements are prepared in compliance with the law. The Statutory Auditor also informed us that their Reports do not contain any observations or qualifications.

In order to discharge our information mandate, we also certify that:

I. The Company undertook to purchase treasury shares, in accordance with the decision made at the Shareholders' Meeting of 17 December 2003.

II. No unusual activities were undertaken within the Company or with any related parties. Transactions with Group companies and associated companies all related to the provision of services and all were carried out at normal 'arm's length' market prices. These activities were all carried out in accordance with the best interests of the Company.

III. During February 2004 a declaration was received from a shareholder pursuant to Art. 2408. Following the appropriate examination, the Board of Auditors prepared a report and presented its conclusions to the Shareholders' Meeting of 20 April 2004. No declarations and/or statements under Art. 2409 of the Italian Civil Code have been sent on behalf of the members.

IV. No opinions of any kind were released;

V. The Company did not assign duties to the Statutory Auditor other than those stipulated during the last financial year with regard to the implementation of the new information system;

VI. The Board of Auditors attended seven meetings of the Board of Directors and five meetings of the Internal Controls Committee. The Board of Auditors met six times.

In conclusion, we can confirm that in the course of the supervisory role described above, no omission, censurable facts or irregularities, which could require the involvement of the authorities or other regulatory bodies came to our attention.

For this reason, we recommend the approval of the financial statements at 30 September 2004 as proposed by the Board of Directors and the proposal, formulated by the Board, regarding the distribution of the 2003-2004 financial year cash dividend.

The Board of Auditors
Mauro Sala -Marco Baccani – Enrico P. Muscato

STATUTORY AUDITOR'S REPORT

(pursuant to Article 156, Legislative Decree 58/'98 of the Italian Civil Code)

Milan, Italy **7 January 2005**

Dear Shareholders,

1- We have carried out the audit of the Cairo Communication SpA company financial statements as at 30 September 2004. The Board of Directors is responsible for the preparation of the consolidated financial statements. Our role is to express an opinion on these consolidated financial statements based on our audit.

2- We conducted our audit in accordance with accepted professional standards in Italy. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. 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 the significant estimates made by management, as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

   Please refer to our report of 27 November 2003, with regards to our opinion on the comparative previous year statements, in accordance with the law.

3- In our opinion, the financial statements of Cairo Communication SpA at 30 September 2004 prepared in accordance with generally accepted accounting principles in Italy, give a true and fair view of the consolidated financial position, assets and liabilities, and net profit for the financial year.

4- In order to fully comprehend the financial statements, the following information should be taken into account. A more detailed description can be found in the Directors' Report and the notes to the financial statements.

During this year, Cairo TV SpA was fully merged into Cairo Communication SpA, the Group parent company. The merger act was signed on 28 June 2004 and filed with the companies register on 30 June 2004. As outlined in the merger plan, the assets and liabilities of the merged companies are incorporated into the financial statements of Cairo Communication SpA, with effect from 1 October 2003. For the purposes of transparency and ease of comparability of 30 September 2004 and 30 September 2003 financial statements, a Parent Company proforma Balance Sheet has been prepared at 30 September 2003 combining the financial statements of the two companies at that date in order to reflect the effect of the merger, as if they were one legal entity.

In December 2003, the Group's Cairo TV subsidiary, fully merged into the parent company since June 2004, entered into arbitration proceedings regarding its right of execution of a contract it signed with Tele+ in May 1998. This contract had awarded it the exclusive right to sell advertising time on Tele+ channels which Sky Italia Srl took over when it acquired the Tele+ Group of companies. Cairo TV is also seeking a restraining order in relation to Sky Italia Srl regarding the violation of this exclusive contract, and damages for the non-fulfilment of the contract by Sky Italia Srl.

Sky Italia is contesting these claims through the Board of Arbitrators, denying having entered into the contract, which they seek to void pursuant to Cairo TV's alleged failure to discharge its responsibilities. Arbitration is ongoing. The Board of Arbitrators has taken into account matters relating to certain exceptions, regarding process and merit, raised by Sky (including the matter of assumption of contract) and written defence statements are currently being filed.

The aforementioned contract, suspended since 1 July 2004, generated € 36 million in revenue during the October 2003 – June 2004 period (€ 7.2 million net of advertising agency discounts and advertising time fees), which represents over 19% of Group's € 188 million in sales for the 2003-2004 financial year.

As notified in June 2004, Tele+ has now undertaken court proceedings against Cairo TV SpA, nominating Prof. Vittorio Colesanti as arbitrator, requesting that the contract (which it deems to have made under its own name, and not representing the Tele+ operating companies) be dissolved, due to breach of the contract on the part of Cairo TV (these are the same claims made by Sky Italia in the aforementioned arbitration, which were never raised by Tele+ before Sky's arrival and the beginning of the related arbitration). They are also seeking damages from Cairo TV. Cairo Communication, which incorporates the operations of Cairo TV, has announced its intention to request that Tele+ claims be dismissed as totally groundless and has announced its intention to seek compensation from Tele+. The Board of Arbitrators held a hearing on 28 September 2004. The Board are expected to fix the terms by which written defence statements may be lodged.

The Board of Directors feels that the outcome of the arbitration process will have no significant impact on the Group's consolidated accounts at 30 September 2004.

DELOITTE & TOUCHE SpA

Piergiovanni Pasquarelli

CAIRO COMMUNICATION

Cairo Communication Group
Group Directors' Report
2003-2004 Financial Year ending 30 September 2004

EXECUTIVE SUMMARY

GROUP DIRECTORS' REPORT

Cairo Communication Group

Financial Year ending 30 September 2004

Dear Shareholders,

We hereby present to you for your approval the consolidated financial statements of Cairo Communication Group for the financial year ending 30 September 2004, comprising a Balance Sheet, Income Statement and Notes, prepared in accordance with Italian Civil Law and changes arising from Legislative Decree 127/91, reporting a consolidated net profit of over € 6.7 million.

During the 2003-2004 financial year, the Cairo Communication Group continued to operate as an advertising broker selling advertising time/space on TV networks, in print media and on Internet sites, and as a publisher of books and magazines (Editoriale Giorgio Mondadori and Cairo Editore publishing houses) and an operator of Internet sites (Il Trovatore search engine). In April 2004, the Group established the Cairo Directory company, enabling it to enter the telephone directory market, in line with the Group strategy regarding the development of high-margin activities.

The growth recorded in Cairo Editore, with the launch of new titles, confirmed Cairo Group's strategic decision to focus on the development of its Publishing business. Sandro Mayer, one of Italy's best known and most experienced editors, has taken on the directorship of a new popular weekly current affairs magazine, "Settimanale Di Più", which went on sale on 19 April, following a planning stage of just three months. This title is enjoying excellent results and exceeding all sales forecasts. Sales figures for the first thirty-one editions of "Settimanale Di Più" averaged 810,000 copies each (sales for the twelve month period September 2003 – August 2004 averaged 789,000 copies for the twenty issues. Source: ADS). Advertising sales for this title have also shown considerable improvement and at 26 November 2004 the advertising order backlog for "Settimanale Di Più" for the remainder of 2004 (37 issues) totalled € 11 million.

Results for the first seven months have led the Group to forecast a marked increase in sales and advertising revenues for this title, and a corresponding improvement in Group profitability margins. The Group forecasts advertising revenues of € 43 million (before launch costs) and a profit margin of 25% for its "Settimanale Di Più" title for the coming twelve months.

The two titles launched by Cairo Editore during 2003, "For Men Magazine" and "Natural Style", have continued to enjoy strong sales and distribution figures. Average sales for these titles for the September

2003 – August 2004 twelve month period have totalled 130,000 and 102,000 copies respectively. (Source: ADS)

The Group's EGM subsidiary, publisher of the "Bell'Italia", "Bell'Europa", "In Viaggio", "Airone", "Gardenia", "Arte" and "Antiquariato" magazines, also enjoyed strong performances during the 2003-2004 financial year, developing their publications with advertising campaigns and numerous publishing initiatives.

The Group's Advertising business also enjoyed strong sales growth, particularly with regard to the sale of advertising time on behalf of the La7 TV network, which generated revenue totalling € 79 million during the October 2003 – September 2004 period, up 35% on last year, against overall growth in the advertising market during this 12-month period of just 13% (Source: AC Nielsen).

Specialty channels advertising time sales also performed well, particularly for Cartoon Network and Boomerang, with sales up 40% to € 5.9 million. Sales for Discovery Channel, Discovery Civilization, Discovery Travel & Adventure and Discovery Science doubled on last year's figures, totalling € 2.6 million. Sales for Bloomberg and CNN were also strong. Advertising time sales for Sky Sport 1 and Calcio Sky continued until June 2004 (€ 36.7 million for the nine-month period October 2003 – June 2004).

Gross operating revenues for the Cairo Communication Group for the 2003 – 2004 financial year jumped 20.8% from € 155.5 million for last year to € 187.8 million. Group gross operating profit (EBITDA) increased by 16.1% to € 15.1 million from € 13 million for the previous financial year. Group operating profit (EBIT) rose 15.1% from € 5.2 million to € 6 million.

CAIRO COMMUNICATION GROUP - FINANCIAL RESULTS

Cairo Communication Group Consolidated Income Statement

(€ thousands)		
Financial year ending 30 September	**2004**	**2003**
Sales	183,973	152,905
Other operating revenues	3,862	2,526
Gross operating revenues	**187,835**	**155,431**
Advertising agency discounts	(22,025)	(19,528)
Inventory movements	(124)	(322)
Operating revenues	**165,686**	**135,581**
Cost of sales	(139,070)	(113,213)
Personnel costs	(11,533)	(9,385)
Gross operating profit (EBITDA)	**15,083**	**12,983**
Depreciation and provision charges	(9,108)	(7,795)
Operating profit (EBIT)	**5,975**	**5,188**
Net finance income	2,741	3,195
Profit from ordinary activities	**8,716**	**8,383**
Net exceptional expenses	(174)	(1,281)
Profit before tax	**8,542**	**7,102**
Income tax	(1,904)	(2,088)
Minority interest	67	27
Net profit	**6,705**	**5,041**

2003-2004 Group gross operating revenues increased by 20.8% to € 187.8 million from € 155.4 million, consisting of € 184 million in sales and € 3.8 million in other operating revenues.
Both Group EBITDA and EBIT improved considerably during this time, with the EBITDA jumping 16.1% to € 15.1 million from € 13 million and the EBIT jumping 15.1% to € 6 million from € 5.2 million. These outstanding results, both in terms of advertising and circulation numbers, were achieved despite pre-publication and launch costs associated to the launch of new titles totalling € 2.1 million (€ 1.4 million last year).

During the 2003-2004 financial year, € 3.2 million in pre-publishing and launch costs relating to the launch of "Settimanale Di Più" were charged to the income statement, to be allocated over the magazine's first twelve months (€ 1.6 million during this financial year). Advertising costs for subsequent issues totalled € 0.6 million.

Promotion initiatives for the titles launched during 2003, "For Men Magazine" magazine and "Natural Style", and the re-launch of "Airone" and "Gardenia". This investment is in addition to pre-launch and publication costs, bringing the total to € 2.2 million, a sharp increase on the previous twelve month period of € 1.2 million.

Of note, advertising sales revenues and profit margins realised by Cairo during the 2003 calendar year from its agreement with the La7 TV network were lower than what will be achieved in subsequent years as a result of agreement specificities relating to the first year. Unlike this year, the 2002-2003 financial year saw income of € 2 million generated by this situation.

The increase in depreciation, amortisation and provision charges (€ 0.6 million for the October – December 2003 period) results from the amortisation of the entrance fee paid to the La 7 network in order to exclusively sell advertising time on its behalf, which came into effect in January 2003.

Group net finance income included € 0.5 million in dividend tax credits (€ 1.6 million for 2001-2003). Excluding this dividend tax credit, net finance income would have amounted to € 2.7 million.

Net exceptional expenses include € 0.2 million in costs arising from an income tax agreement, pursuant to Articles 8, 9 and subsequent amendments to Law N° 350 of 4 December 2003.

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

(€ thousands) **Financial year ending 30 September**	**2004**			**2003**		
	Publishing	**Advertising**	**Total**	**Publishing**	**Advertising**	**Total**
TV advertising time sales	-	124,513	**124,513**	-	97,777	**97,777**
Print media advertising space sales	20,152	10,394	**30,546**	14,023	29,080	**43,103**
Stadium signs and electronic billboards advertising space sales	-	10	**10**	-	201	**201**
Internet advertising time sales	-	63	**63**	-	143	**143**
Magazine over-the-counter sales	25,431	-	**25,431**	7,776	-	**7,776**
Magazine subscription sales	3,392	-	**3,392**	3,176	-	**3,176**
Audiovisual and other sales	116	-	**116**	78	-	**78**
Books and catalogues	629	-	**629**	907	-	**907**
VAT relating to publications	(727)	-	**(727)**	(256)	-	**(256)**
Total - Sales	**48,993**	**134,980**	**183,973**	**25,704**	**127,201**	**152,905**
Other operating revenues	792	3,070	**3,862**	595	1,931	**2,526**
Total - Gross Operating Revenues	**49,785**	**138,050**	**187,835**	**26,299**	**129,132**	**155,431**

Analysis Group Financial Results by Business Segment

(€ thousands)	Advertising		Publishing		Search Engine (Il Trovatore)		Directory	
Financial year ending 30 September	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Sales	134,826	127,037	48,993	25,704	154	164	-	-
Other operating revenues	3,060	1,924	792	595	10	7	-	-
Gross operating revenues	**137,886**	**128,961**	**49,785**	**26,299**	**164**	**171**	**-**	**-**
Agency discounts	(22,025)	(19,528)	-	-	-	-	-	-
Inventory movements	**-**	-	(124)	(322)	**-**	-	**-**	-
Operating revenues	**115,861**	**109,433**	**49,661**	**25,977**	**164**	**171**	**-**	**-**
Cost of sales	(99,278)	(93,617)	(39,456)	(19,324)	(249)	(272)	(86)	-
Personnel costs	(4,243)	(3,949)	(7,289)	(5,436)	-	-	-	-
Gross operating profit (EBITDA)	**12,340**	**11,867**	**2,916**	**1,217**	**(85)**	**(101)**	**(86)**	**-**
Depreciation and provision charges	(7,799)	(6,227)	(1,267)	(1,543)	(24)	(25)	(18)	-
Operating profit (EBIT)	**4,541**	**5,640**	**1,649**	**(326)**	**(109)**	**(126)**	**(105)**	**-**
Net finance income/(expenses)	2,519	2,979	221	217	(6)	(1)	6	-
Profit from ordinary activities	**7,060**	**8,619**	**1,870**	**(109)**	**(115)**	**(127)**	**(99)**	**-**
Net exceptional income/(expenses)	(153)	(1,134)	(1)	(140)	(20)	(7)	**-**	-
Profit before tax	**6,907**	**7,485**	**1,869**	**(249)**	**(135)**	**(134)**	**(99)**	**-**
Income tax	(2,579)	(2,182)	677	94	(2)	-	-	-
Minority interest	**-**	-	**-**	-	**26**	27	**40**	-
Net profit/(loss)	**4,328**	**5,303**	**2,546**	**(155)**	**(110)**	**(107)**	**(59)**	**-**

Cairo Communication Group Consolidated Balance Sheet

(€ thousands)	30 September 2004	30 September 2003
Assets		
Property, furniture and equipment	3,031	3,049
Intangible assets	14,821	19,510
Investments	189	209
Treasury shares	765	1,195
Marketable securities	-	-
Other current assets	1,890	11,663
Total Assets	**20,696**	**35,626**
Equity and Liabilities		
Shareholders' equity	129,743	133,588
Minority interest	745	12
Non-current borrowings and provisions for liabilities	5,112	6,153
Borrowings from unconsolidated subsidiary	-	-
Net financial assets	(114,904)	(104,127)
Total Equity and Liabilities	**20,696**	**35,626**

The fall in equity relates primarily to the payment of cash dividends totalling € 12.4 million (€ 1.60 per share), to holders of Company shares (excluding treasury shares held at that date) pursuant to the decision made by the Shareholders of Cairo Communication SpA, at their meeting of 17 December 2003.

The Board of Directors of Cairo Communication SpA, at its 10 December 2003 meeting, authorised the allocation of a second block of options relating to the share option plan approved by the Extraordinary General Meeting of 19 April 2000. At 30 September 2004, the final date for the exercise of the second block of shares pursuant to the stock option plan, rights had been exercised of 84,340 shares, equivalent to a share capital increase of € 43,856.80 and a share premium increase of € 1,788,008.

Cairo Communication Group Consolidated Statement of Net Financial Position

(€ thousands)	**30 Sept. 2004**	**30 Sept. 2003**	**Change**
Bank and cash	101,828	98,066	3,822
Surety deposits	6,995	-	6,995
Marketable securities	82	82	-
Insurance financial products	6,000	6,000	-
Bank loans	(61)	(21)	(40)
Net Financial Assets	**114,904**	**104,127**	**10,777**
Immobiledit borrowings	-	-	-
Net Financial Position	**114,904**	**104,127**	**10,777**

Net financial assets includes a surety deposit of € 6,985,651(€ 6,994,696 net of interest accrued) made by Cairo Communication SpA pending the arbitrator's decision regarding the dispute between Cairo Communication and Tele+ SpA, as described in the Note 14 to the Parent Company financial statements.

Cairo Communication has continued to manage its cash and bank assets very prudently, investing for the most part in interbank deposits.

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

CAIRO COMMUNICATION SPA - FINANCIAL RESULTS

The Extraordinary General Meeting of shareholders of 20 April 2004 approved the merger by incorporation of the wholly-owned subsidiary Cairo TV SpA into Cairo Communication SpA, the Group parent company. The merger act was signed on 28 June 2004 and filed with the companies register on 30 June, 2004. As outlined in the merger plan, the assets and liabilities of the merged companies are incorporated into the financial statements of Cairo Communication SpA, with effect from 1 October 2003.

For the purposes of transparency and ease of comparability of 30 September 2004 and 30 September 2003 financial statements, a Parent Company proforma Balance Sheet has been prepared at 30 September 2003 combining the financial statements of the two companies at that date in order to reflect the effect of the merger, as if they were one legal entity.

Cairo Communication SpA - Parent Company Income Statement

(€ thousands)	2004	2003 Proforma	2003
Financial year ending 30 September			
Sales	154,537	140,835	112,560
Other operating revenues	1,735	1,923	1,470
Gross operating revenues	**156,272**	**142,758**	**114,030**
Advertising agency discounts	(22,023)	(19,527)	(12,671)
Operating revenues	**134,249**	**123,231**	**101,359**
Cost of sales	(118,882)	(107,328)	(88,480)
Personnel costs	(4,243)	(3,949)	(3,201)
Gross operating profit (EBITDA)	**11,124**	**11,954**	**9,678**
Depreciation, amortisation and provision charges	(8,463)	(6,551)	(4,640)
Operating profit (EBIT)	**2,661**	**5,403**	**5,038**
Net finance income	4,920	2,468	10,048
Investments writedowns	0	(452)	(452)
Profit from ordinary activities	**7,581**	**7,419**	**14,634**
Net exceptional expenses	(114)	(1,124)	(943)
Profit before tax	**7,467**	**6,295**	**13,691**
Income tax	(2,388)	(1,719)	(3,440)
Net profit	**5,079**	**4,576**	**10,249**

Cairo Communication SpA continued to operate during 2003-2004 as a multimedia advertising broker selling advertising time/space on TV networks, in print media and on Internet sites, and as a publisher of books and magazines and to provide centralised services to Group companies.

Gross operating revenues increased € 13.5 million (against 30 September 2003 proforma data) to € 156.3 million, due mainly to the increase in advertising time sales revenue from the exclusive contract for the La7 TV network.

Of note, advertising sales revenues and profit margins realised by Cairo during the 2003 calendar year from its agreement with the La7 TV network were lower than what will be achieved in subsequent years as a result of agreement specificities relating to the first year. Unlike this year, the 2002-2003 financial year saw income of € 2 million generated by this situation.

Gross operating profit (EBITDA), has decreased slightly to € 11.1 million from € 12 million for 2002-2003 (proforma). Operating profit (EBIT) totalled € 2.7 million for this year. As previously noted, this figure was affected by the increase in depreciation, amortisation and provision charges related primarily to the expensing of a € 0.6 million entrance fee paid at the onset of the advertising sales agreement with the La7. For the previous year, this had been expensed over just nine months, January – September. The merger deficit has also been expensed and specific assets written down.

2003-2004 net finance income included a € 5.1 million dividend and a related tax credit of € 2.6 million, totalling € 7.7 million, from its subsidiary, Cairo TV SpA.

Cairo Communication SpA Parent Company Balance Sheet

(€ thousands)	30 September 2004	30 September 2003 Proforma	30 September 2003
Assets			
Property, furniture and equipment	505	630	528
Intangible assets	10,505	14,906	7,804
Investments	13,991	13,250	22,047
Treasury shares	765	1,195	1,195
Other current assets	7,229	12,143	17,696
Total Assets	**32,995**	**42,124**	**49,270**
Equity and Liabilities			
Shareholders equity	130,804	136,195	136,275
Non-current borrowings and provisions for liabilities	1,248	984	708
Borrowings from unconsolidated subsidiary	4,885	4,985	4,985
Net financial assets	(103,942)	(100,040)	(92,698)
Total Equity and Liabilities	**32,995**	**42,124**	**49,270**

As earlier discussed, the increase in intangible assets arises primarily from the merger difference (€ 6.1 million net of amortisation) resulting from the incorporation of Cairo TV and which was capitalised as merger goodwill on the Parent Company financial statements in order to reflect the revenue generating capability of the incorporated company and the synergies that result.

Cairo Communication SpA - Parent Company Statement of Net Financial Position

(€ thousands)	**30 Sept. 2004**	**30 Sept. 2003 Proforma**	**30 Sept. 2003**	**Change Proforma**	**Change**
Bank and cash	90,865	93,958	86,615	(3,093)	4,249
Surety deposits	6,995	-	-	6,995	6,995
Insurance financial product	6,000	6,000	6,000	-	-
Marketable securities	82	82	82	-	-
Net Financial Assets	**103,942**	**100,040**	**92,697**	**3,902**	**11,244**
Immobiledit borrowings	(4,884)	(4,985)	(4,985)	101	101
Net Financial Position	**99,050**	**95,055**	**87,712**	**3,995**	**11,345**

Net financial assets includes a surety deposit of € 6,985,651 (€ 6,994,696 net of interest accrued) made by Cairo Communication SpA pending the arbitrator's decision regarding the dispute between Cairo Communication and Tele+ SpA, as described in the Note 14 to the Parent Company financial statements.

Cairo Communication has continued to manage its cash and bank assets very prudently, investing for the most part in interbank deposits.

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

CAIRO COMMUNICATION GROUP - OPERATING RESULTS

PUBLISHING BUSINESS

Editoriale Giorgio Mondadori SpA (EGM) & Cairo Editore SpA

The significant increase in revenue generated by the Publishing business this year is linked to the launch of "Settimanale Di Più" on 19 April, which has generated sales and advertising income of € 20.7 million at Group level.

This magazine has enjoyed extraordinary success, with average sales of 810,000 copies for the first 31 issues. This new title brings Cairo Editore into the high margin weekly magazine market.

The Publishing business has enjoyed growing profit margins overall, with gross operating profit (EBITDA) increasing 139% from € 1.2 million to € 2.9 million. The addition of three new titles, "For Men magazine" and "Natural Style" during 2003 followed by "Settimanale Di Più" during 2004 will allow for streamlining of existing structures, as EGM has made its company structure available to Cairo Editore, providing assistance with management, administration and sales. Assistance will also be given with administrative and financial controls, distribution, subscription management and control, office space and related services. Editoriale Giorgio Mondadori Group, the subsidiary that publishes "Airone", "Bell'Italia", "Bell'Europa", "Gardenia", "Arte" and "Antiquariato" continued to enjoy strong sales figures during this period.

In particular, the EGM tourism titles, "Bell'Italia", "Bell'Europa" and "In Viaggio" continue to post impressive circulation figures. The latest figures from Audipress confirm their continued growth trend, which is almost unique in the tourism publishing field. "Bell'Italia" readership has climbed to 656,000, strengthening its position as market leader with 8.1%. "Bell'Europa" readership has reached 341,000, an increase of 25.8% while "In Viaggio" readership figures have jumped 30% to 208,000. Overall these titles command 38.1% of their market. The strong readership figures of these three magazines are matched by their distribution figures. According to the most recent data from Audipress, average sales for the September 2003 – August 2004 period for "Bell'Italia" totalled 72,600, while sales of "Bell'Europa" and "In Viaggio" reached 48,900 and 34,300 respectively.

ADVERTISING BUSINESS

TELEVISION DIVISION

The significant increase in revenue from the sale of TV advertising time is primarily due to the income generated by the advertising contract with the La7 network, which generated income of € 79 million during the October 2003 – September 2004 period, up 35% on last year, against overall growth in the advertising market during this 12-month period of just 13% (Source: AC Nielsen).

Advertising time sales for the Sky digital channels continued until June 2004, as described below, and for the other specialty channels Cartoon Network, Discovery Channel, Bloomberg and CNN.

During 2004, Cairo began selling advertising time on Boomerang, the new Turner cartoon channel (they also produce the Cartoon Network), followed by Discovery Civilization, Discovery Travel & Adventure and Discovery Science specialty channels.

Group subsidiary Cairo TV SpA signed a ten-year contract with the Tele+ television network in 1998, giving it the exclusive rights for the sale of advertising time on Tele+ terrestrial and digital TV channels until December 2007. 2003 was a watershed year for the Italian pay TV market, with the arrival of Sky and the creation of a single satellite pay TV network for Italy from the merger of the Tele+ and Stream satellite TV networks. Channels formerly broadcast on the Tele+ satellite TV network are now broadcast on the Sky Italia satellite TV network, effective from 31 July 2003. Subsequently, as part of this operation, the broadcasting companies in the Tele+ Group were taken over by Sky Italia (formerly Stream SpA). Since 31 July 2003, advertising time sales by Cairo TV have been limited to Italian Premier League Football (Serie A) matches, both live and time delayed broadcasts, as well as the Diretta Gol, Calcio Sky and other sports shows broadcast on Sky Sport 1.

In December 2003, the Group's Cairo TV subsidiary, having nominated Guido Rossi as its arbitrator, entered into arbitration proceedings regarding its right of execution of a contract it signed with Tele+ in May 1998. This contract had awarded it the exclusive right to sell advertising time on Tele+ channels (currently limited to advertising time for Italian Serie A Football matches - live and time delayed broadcasts, and Diretta Gol, Calcio Sky and other sports shows broadcast on Sky Sport 1), which Sky Italia Srl took over when it acquired the Tele+ Group of companies. Cairo TV is also seeking a restraining order in relation to Sky Italia Srl regarding the violation of this exclusive contract, and damages for the non-fulfilment of the contract by Sky Italia Srl.

Sky Italia Srl has nominated Piero Schlesinger as its arbitrator and the two arbitrators jointly nominated Riccardo Luzzato chairman of the Board of Arbitrators.

Sky Italia is contesting these claims through the Board of Arbitrators, denying having entered into the contract, which they seek to void pursuant to Cairo TV's alleged failure to discharge its responsibilities.

Prior to the arbitration process, Cairo TV had never received any notice of breach of agreement, and continues to post exceptional advertising time sales results, which have nearly tripled during the first five years, despite the failure on the part of the Tele+ Group to have reached the subscription levels forecast in the contract. Thus, it is Cairo TV's view that this agreement will be extended for a further 2 to 3 years beyond its current scheduled expiry date of 31 December 2007, as existing agreement conditions have been fulfilled.

Arbitration is ongoing. The Board of Arbitrators has taken into account matters relating to certain exceptions, regarding process and merit, raised by Sky (including the matter of the assumption of the contract) and written defence statements are currently being filed.

The aforementioned contract has generated € 36 million in revenue during the October 2003 – June 2004 period (€ 7.2 million net of editorial fees and agency discounts), which represents over 19% of the € 188 million in Group sales for the 2003-2004 financial year.

As notified in June 2004, Tele+ has now undertaken court proceedings against Cairo TV SpA, nominating Prof. Vittorio Colesanti as arbitrator, requesting that the contract (which it deems to have made under its own name, and not representing the Tele+ operating companies) be dissolved, due to breach of the contract on the part of Cairo TV (these are the same claims made by Sky Italia in the aforementioned arbitration, which were never raised by Tele+ before Sky's arrival and the beginning of the related arbitration). They are also requesting damages from Cairo TV. Cairo Communication, incorporating Cairo TV, has nominated Prof. Guido Rossi as arbitrator and has announced its intention to request that Tele+'s claims be dismissed as totally groundless and has announced its intention to seek compensation from Tele+.

The Board of Arbitrators held a hearing on 28 September 2004 with the nominated Chairman of the Board, Prof. Raffaele Nobili. The Board are expected to fix the terms by which written defence statements may be lodged.

The Board of Directors feels that the outcome of the arbitration process will have no impact on the 30 September 2004 accounts.

PRINT MEDIA DIVISION - CAIRO COMMUNICATION SPA

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

- "Airone", "Bell'Italia", "Bell'Europa", "In Viaggio", "Gardenia", "Arte" and "Antiquariato" magazines pursuant to its contract with the Editoriale Giorgio Mondadori Group
- "For Men Magazine", "Natural Style" and "Settimanale Di Più" magazines for Cairo Editore
- "Prima Comunicazione" and "Burda" magazines.

The contract for the sale of advertising space with Edit ("Bella" "Pratica", "Buona Cucina", "Un Mese in Cucina" and "La Mia Boutique" magazines) was concluded on 31 March 2004.

During this year, print media division income fell from € 43.1 million to € 30.6 million, primarily due to the expiry of the contract with RCS (which generated revenue of € 23.8 million during the 2002-2003 financial year), partly offset by the increase in sales of Group magazines, particularly "Settimanale Di Più" (€ 6.9 million during the April – September 2004 six month period).

INTERNET DIVISION - IL TROVATORE SPA – CAIRO WEB LTD

During this year, development of the search engine Il Trovatore has continued, as it enjoyed high numbers of pages viewed, hits and service subscriber numbers, totalling 9.5 million, 14 million and 437,000 respectively at 30 September 2004. Development activities have focussed on the search for sources of income complementary to those from advertising space sales, and the provision of technology services. The Cairo Group has decided to maintain its presence in the Internet sector, and continues to monitor developments in this division with great interest, in order that any future opportunities may be exploited.

DIRECTORY DIVISION – CAIRO DIRECTORY

In April 2004 Cairo Communication Group entered the telephone directories market with a 60% controlling share in the Cairo Directory.

This company is managed by Carlo Basile, who has been the Group's Commercial Director for the last six years and was Sales Director for the European leader in the direct advertising sector, for the four previous years. In his first five months on this project, he has built a team with the objective of developing the project and launching the first sales campaign at the start of 2005.

The reasoning behind this course of action is threefold:

- The reference market presents a very attractive profile: 700,000 active clients out of a potential 3,000,000.
- Possibilities for expansion of the market with an innovative, effective, client-friendly multimedia product have been identified, to complement the existing range available.
- The Cairo Communication Group will be able to enter the dynamic market of local advertising.

This project is still at the start-up stage. The details of the product and the organisational model are currently being decided, and the sales network agents are being chosen. The first few months of the project have seen costs incurred and capitalised of € 0.9 million and further management costs allocated to the income statement of € 0.1 million.

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OTHER INFORMATION

RESEARCH AND DEVELOPMENT ACTIVITY

The Group did not engage in any Research and Development activity during the 2003-2004 financial year.

TRANSACTIONS BETWEEN THE CONTROLLING SHAREHOLDER, GROUP COMPANIES AND RELATED PARTIES

Transactions between non-consolidated Group companies and the controlling shareholder (UT Communications) and its subsidiaries were carried out at cost or fair market value. More information on the Parent Company transactions with the Group is provided in the Notes to the Parent Company Financial Statements.

Of note, apart from the increase in share capital described below, Cairo Communication Group had no dealings with UT Communications or its subsidiaries.

In April 2004, Cairo Directory Srl was founded with a share capital of € 10,000. This was later transformed into a company for shares, with an increase in share capital of € 2 million. UT Communications (controlling shareholder, with 62% of the share capital of Cairo Communication SpA) participated in this share capital increase with a 40% share, with Cairo Communication partially renouncing the option right owed to them on the shares subscribed by the controlling shareholder.

KPMG Business Advisory Services S.p.A. were asked to determine the option rights valuation, and it was felt that at the date of the operation, in the context of the commitments undertaken by the parties, the economic value of the option rights should be set at zero.

UT Communications had previously communicated to Cairo Communication SpA their irrevocable commitment to underwrite a 40% capital share of same (hereafter “The Investment”) if it should happen that the option rights on the aforementioned share capital increase should be only partially exercised. They also undertook to follow this 40% share with further share capital increases, as decided by the Board of Directors, to a maximum of € 10 million within five years, on condition that Cairo Communication SpA make a similar commitment to invest an appropriate proportional amount.

The share capital increase was underwritten to a total of € 1.19 million by Cairo Communication Spa (representing 60% of the total share capital) and € 800,000 (40% of the share capital) by UT Communications SpA.

A meeting of the Cairo Directory company, pursuant to Art. 2443 of the Italian Civil Code and Art. 5 of the Company bylaws, authorised the Board of Directors to increase the share capital, once or more than once, until a pre-determined figure of € 10 million is reached, over a maximum period of five years from the date of deposit of the statement with the Register of Companies.

SHARES HELD BY DIRECTORS, AUDITORS AND EXECUTIVE MANAGEMENT

Name	Number of shares held at 30 Sept. 2003	Number of shares purchased	Number of shares sold	Number of shares held at 30 Sept. 2004
Directors				
Urbano R. Cairo *	5,712,750	-	(3,000)	5,709,250
Roberto Cairo	10,000	-	-	10,000
Uberto Fornara	13,800	-	15,200	26,000
Marco Janni	-	-	-	-
Antonio Magnocavallo	-	-	-	-
Marco Pompignoli	200	7,700	(1,500)	6,400
Roberto Rezzonico	-	-	-	-
Board of Auditors				
Mauro Sala	-	-	-	-
Marco Baccani	-	-	-	-
Enrico Muscato	-	-	-	-

** Shares held directly and via UT Communications SpA and its subsidiaries*

ITALIAN CIVIL CODE ARTICLE 2428, SECTIONS 3& 4 DISCLOSURES

At 30 September 2004, Cairo Communication SpA held 26,224 € 0.52 par value treasury shares at an average cost per share of € 29.15, against September's reference price of € 27.09 per share.

The Meeting of shareholders of 17 December 2003 approved a proposal authorising the granting of powers to the Board of Directors to buyback Cairo Communications SpA shares up to the maximum number allowed by law for a period of 18 months from the date of authorisation, availing itself of the Company's distributable net profit for the financial year ending 30 September 2001 after allocation to legal reserve, the Company's retained earnings and the Company's share premium, pursuant to Article 2357 of the Italian Civil Code. The authorisation provides for the buyback of Company shares in one or more instalments through the market. The minimum and maximum purchase prices per share were set at an amount equivalent to the average official price of the shares on the Italian Stock Exchange in the 15 working days prior to the purchase, reduced or increased by 30%.

Between 30 September 2004 and the date of approval of this Report, the Company disposed of 26,000 shares at an average per share price of € 29.67 and purchased 1,525 at an average per share price of € 29.45

CORPORATE GOVERNANCE

The Board of Directors of Cairo Communication consists of 8 members, three of whom are executive: Urbano Cairo – Chairman of the Board, Uberto Fornara, CEO, and Marco Pompignoli, Chief Financial Officer. The other directors are non-executive, Antonio Magnocavallo, Marco Janni and Roberto Cairo. The remaining two directors, Roberto Rezzonico and Antonio Ferraro, are independent.

The Shareholders' Meeting of 17 December 2003 increased the number of directors from 7 to 8 in order that the number of independent directors remains unchanged, in keeping with its policy of complying with the provisions of the Code of Self Governance.

Towards the end of the 2002-2003 financial year, the law practices of Antonio Magnocavallo, Company Director, and Marco Janni merged to form a new partnership: Janni, Magnocavallo, Fauda, Brescia and Associates, with Marco Janni appointed as executive partner. Pursuant to Article 3.1 of the Code of Self Governance issued by the Corporate Governance Committee and Article IA.1.4.1 of the Italian New Market Regulations, Marco Janni is henceforth no longer deemed an Independent Director, except for those matters explicitly specified by the Board.

At 4 February 2004, the Board of Directors conferred to the Board the discretionary powers to purchase, sell or exchange business activities and companies, as well as provide guarantees and performance bonds, which would not be delegated to individual Directors.

Reflecting the size of the Group and its companies, executive and managerial powers are vested in the Chairman, except those closely linked to the Group's Advertising business, which are vested in Uberto Fornara. There is no Management Committee.

The Chairman holds ordinary and extraordinary powers, with a single signature, excluding those matters listed above which are reserved for the Board. The Chairman regularly brings to the attention of the Board the actions taken by his delegates during the course of the year. The Chairman is responsible for the functions of the Board and thus calls the meetings, co-ordinates the activities and distributes the relevant information.

During this year, Director Marco Janni resigned as a member of the Audit Committee and the Board, meeting on 28 May 2004, decided to maintain the majority of independent directors on the Audit Committee by nominating the independent director Antonio Ferraro.

Currently the Audit Committee consists of the following members: Roberto Rezzonico, independent; Antonio Ferraro, independent member and Antonio Magnocavallo, non-executive member.

The Audit Committee has the following functions:

- the formulation of proposals to the Board of Directors regarding the ongoing prevention of operational and financial risks
- the evaluation of work plans prepared by those responsible for internal controls and submitted in regular reports
- regular collaboration with the auditors, the evaluation of their proposals responsibility and their pre-prepared work plan.
- reporting on a half-yearly basis to the Board of Directors on duties discharged and the appropriateness of the internal control system, when the annual and half-yearly reports are under approval.
- assisting the Chairman in the preparation of a document regarding the proposals for the formation of an internal control system, which must include direct processes to monitor operational efficiency, the reliability of financial information, compliance with legislation and regulations and the safeguarding of assets, and the deliberation of these proposals by the Board.
- assisting the Board of Directors in the setting of guidelines for the above;
- evaluation of the appropriateness of accounting principles used and their standard application within the Group, in collaboration with Company administrative employees and auditors, as part of the preparation of the parent company and consolidated financial statements.

The Remuneration Committee consists of the following members: Roberto Rezzonico, independent member; Marco Janni, non-executive member and Antonio Magnocavallo, non-executive member.
The Remuneration Committee has the following functions:
- the formulation of proposals to the Board of Directors regarding remuneration of Managing Directors or those with particular responsibilities pursuant to Art. 2389 Section II of the Italian Civil Code, and the remuneration of senior management of the Company;
- the formulation of proposals to the Board regarding future share option plans.

Meeting on 28 May 2004, the Board approved the regulation of the Remuneration Committee, nominating Antonio Magnocavallo as Chairman.

The Board of Directors has decided not to proceed with the formation of a Nomination Committee, optional under current legislation, as it was confirmed that the current Board of Directors is in a position to carry out the functions of the Nomination committee.

In accordance with the new guidelines on insider trading and market disclosures, which came into force on 1 January 2004, covering operations involving financial instruments issued by the Company (or those who assume the right to underwrite, purchase or sell such financial instruments), carried out by “important persons”, at their meeting of 19 December 2002 the Board of Directors approved an internal code of practice regulating all of the above matters.

In view of the role of managers and directors who recently joined the management team of some Group companies, at their meeting of 5 August 2004 the Board of Directors approved the necessary adjustments to the current internal code of practice on insider dealing.

SHARE OPTION PLAN

At the Extraordinary Meeting of 19 April 2004, the Board of Directors agreed the increase to the share capital, pursuant to Article 2441, Subsections V and VIII, excluding option rights, for a maximum of 160,000 shares, to be carried out in one or more blocks, to be reserved for certain directors, agents, associates, consultants, managers and employees of the Company or company subsidiaries, for subscription until 31 December 2004.

On 14 January 2004, the Board of Directors of Cairo Communication SpA authorised the allocation of the second block of options pursuant to the share option plan approved by the Extraordinary Meeting of 19 April 2000, and approved the regulations governing the allocation of these options on a specific beneficiary basis pursuant to the achievement of individually set objectives. The second block comprises a further 50,000 options, to which are added any options of the first block that had not been exercised before their 30 September 2004 expiry date, resulting potentially in the maximum issuance of 110,000 shares pursuant to the second block.

On 10 December 2003, the Board of Directors of Cairo Communication SpA deliberated the proposal of the Chairman concerning the allocation of second block of options to specific beneficiaries, taking into account company, divisional and individual performance achievements relative to set objectives. Thus a total of 88,000 shares were exercised at an average per share price of € 21.72. At 30 September 2004, the final date for the exercise of the second block of shares pursuant to the stock option plan, rights had been exercised of 84,340 shares, equivalent to a share capital increase of € 43,856.80.

SHARE OPTIONS GRANTED AT 30 SEPTEMBER 2004

	30 September 2004		
	Number of options	Exercise price	Average price during 2003-2004 *
Share options held at 1 October 2003	0	0	0
Share options allocated during 2003-2004	88,000	€ 21.72	€ 28.18
Share options exercised during 2003-2004	(84,340)	€ 21.72	€ 28.18
Share options expired during 2003-2004	(3,660)	€ 21.72	€ 28.18
Share options held at 30 September 2004	0	0	0

** Average price 1 October 2003 – 30 September 2004*

The exercise price regarding the above option allocation will be set at the average share closing price for the preceding month on the Italian Stock Exchange New Market, and shall not exceed € 21.72, the Italian Stock Exchange New Market average closing price for the month preceding 14 January 2003.

The options may be exercised from the date of the Meeting convened to approve the Company and Group financial accounts for the financial year ending 30 September 2003 until 30 September 2004.

SHARE OPTIONS GRANTED TO DIRECTORS AT 30 SEPTEMBER 2004

		Share options owned at 1 October 2003			Share options granted during 2003-2004 FY			Share options exercised during 2003-2004 FY			Share options owned at 30 September 2004		
(A)	(B)												
Name	Board of Directors Position	No. of options	Avg. exercise price	Avg. duration	Number of options	Avg. exercise price	Expiry date	No. of options	Avg. exercise price	Avg. market price at exercise date	No. of options	Avg. exercise price	Avg. expiry date
Uberto Fornara	Vice Chairman	-	-	-	12,200	21.72	30/09/04	12,200	21.72	-	-	-	-
Marco Pompignoli	Member	-	-	-	7,700	21.72	30/09/04	7,700	21.72	-	-	-	-

Subsidiaries Cairo Editore and Cairo Directory approved a stock option plan for their directors, Ernesto Mauri and Carlo Basile, as part of the incentive plan for directors related to profitability targets and in order that a greater sense of ownership and involvement be fostered in the management of these companies.

The stock option plan relating to the CEO of Cairo Editore allows for the granting of option rights to 23,256 shares (equivalent to 2.28% of the current share capital) a total exercise price of € 718 thousand, when fixed productivity and profitability objectives are reached, taking as reference the results obtained at 31 December 2005 (or 31 December 2006, in certain cases outlined by the plan).

The stock option plan relating to the CEO of Cairo Directory, the company founded in April 2004, allows for the distribution of option rights to 83,334 shares (equivalent to 4.1% of the current share capital) at an exercise price equivalent to the book value, when fixed productivity and profitability objectives are reached, taking as reference the results obtained at 31 December 2008 (or 31 December 2009, in certain cases outlined by the plan).

APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

In order to prepare for the application of the International Financial Reporting Standards (IFRS) which will become obligatory from 2005 (the financial year ending 30 September 2006 for the Company), Cairo Communication has launched a project identifying the main differences between the Parent Company's current valuation, recognition, presentation and disclosure policies and those prescribed by IFRS.

INFORMATION PRIVACY REGULATIONS

The Board of Directors of Cairo Communication and subsidiary companies approved several organisational adjustments deemed necessary in preparation for the application of the new regulations concerning information privacy. Provision has been made for the nomination of co-ordinators responsible for data handling, to be chosen on the basis of their competence and personal experience, in order to guarantee the proper management and safeguarding of information handled by the Group.

The Group is in the process of establishing a Personal Information Security Plan, which identifies procedures applied, the resources needed to support the security measures, the risks, the regulations (physical measures, logical measures, and organisational security measures) and the training plan. This Plan will be completed by December 2004, at which time the general regulations for companies utilising information systems are formalised.

2004-2005 FINANCIAL YEAR OUTLOOK

Cairo Communication Group will focus on developing its core businesses during the 2004-2004 financial year. It will focus on the development of its Publishing business operated by its Cairo Editore SpA and Editoriale Giorgio Mondadori (EGM) subsidiaries, as well on its Advertising business, in particular the sale of advertising space in its own magazines and the sale of advertising time on the La7 TV network and selected analogue and digital pay TV specialty channels. Furthermore, from the start of 2005, the Group will be operating in the telephone directories sector with Cairo Directory.

As noted above, the launch of the new magazine “Settimanale Di Più” has been extremely successful, with exceptional results achieved. Sales for the first 31 issues have averaged 811,000 copies.
Results for the first seven months have led the Group to forecast a marked increase in sales and advertising revenues for this title, and a corresponding improvement in Group profitability margins. The Group forecasts advertising revenues of € 43 million (before launch costs) and a profit margin of 25% for its “Settimanale Di Più” title for the coming twelve months.

Thanks to the success of “Settimanale Di Più” and the two titles launched by Cairo Editore during 2003, “For Men Magazine” and “Natural Style”, over twelve months Cairo Editore will be able to generate at least € 55 million in revenue at Group level, from “Settimanale Di Più” alone. Added to the revenue of at least € 22 million generated by EGM at Group level, total sales from the Publishing business is expected to reach € 77 million.

The success of the new titles launch over the last eighteen months, “Settimanale Di Più”, “For Men Magazine” and “Natural Style”, has confirmed Cairo Group’s strategic decision made to focus on the development of its Publishing business. Further new publishing projects are currently under consideration.

Chairman of the Board of Directors

Urbano R. Cairo

CAIRO COMMUNICATION

Cairo Communication Group

Group Financial Report

2003-2004 Financial Year ending 30 September 2004

Cairo Communication Group
Consolidated Balance Sheet
at 30 September 2004

(€ thousands)	Notes	30 September 2004	30 September 2003
ASSETS			
NON-CURRENT ASSETS			
Intangible Assets	**4**		
Incorporation and listing costs		8	1,462
Publications in development		977	10,394
TV ad time sales rights and computer software		7,079	0
Other		199	229
Magazine titles		3,723	3,987
Acquisition goodwill		2,835	3,439
Total		**14,821**	**19,511**
Property, Furniture and Equipment	**5**		
Land and buildings		1,671	1,729
Machinery		56	43
Equipment		3	5
Other		1,301	1,272
Total		**3,031**	**3,049**
Investments			
Shareholdings	**6**	31	31
Financial receivables		158	178
Total		**189**	**209**
TOTAL NON-CURRENT ASSETS		**18,041**	**22,769**
CURRENT ASSETS			
Inventory	**7**		
Materials and supplies		3,176	1,663
Work-in-progress		401	293
Finished products		430	662
Total		**4,007**	**2,618**
Receivables	**8**		
Trade accounts receivable		58,759	63,491
Other receivables		9,663	7,566
Other receivables - non-current portion		51	51
Total		**68,473**	**71,108**
Marketable Securities	**9**		
Unconsolidated subsidiary		0	0
Treasury shares		765	1,195
Insurance financial products and non-Group securities		6,082	6,082
Total		**6,847**	**7,277**
Bank and Cash	**10**		
Bank		108,724	98,057
Cash		159	9
Total		**108,883**	**98,0666**
TOTAL CURRENT ASSETS		**188,210**	**179,069**
PREPAID EXPENSES/ACCRUED INCOME	**11**	**2,872**	**1,129**
TOTAL ASSETS		**209,123**	**202,967**

(€ thousands)	Notes	30 September 2004	30 September 2003
EQUITY AND LIABILITIES			
EQUITY	12		
Share capital		4,074	4,030
Share premium		112,377	112,871
Legal reserve		806	806
Treasury share reserve		765	1,195
Other reserve		17	17
Retained earnings		4,999	9,628
Financial period net profit		6,705	5,041
TOTAL EQUITY		**129,743**	**133,588**
Minority Interest	13	745	12
TOTAL EQUITY AND MINORITY INTEREST		**130,488**	**133,600**
PROVISIONS FOR LIABILITIES & CHARGES	14		
Provision for employee retirement benefits		3,107	2,803
Provision for disputes and other charges		583	490
Provision for deferred taxes		262	466
Other provisions		1,160	2,393
TOTAL PROVISIONS FOR LIABILITIES & CHARGES		**5,112**	**6,252**
LIABILITIES			
Borrowings	15		
Current		61	21
Non-current		0	0
Total		**61**	**21**
Other current liabilities			
Advances		2,107	1,971
Trade payables		63,120	55,013
Unconsolidated subsidiary payables		0	0
Tax liabilities		2,640	1,858
Social security liabilities		617	364
Other		4,917	3,945
Total		**73,401**	**63,151**
TOTAL LIABILITIES		**73,462**	**63,172**
ACCRUED EXPENSES/DEFERRED INCOME	16	**61**	**43**
TOTAL EQUITY AND LIABILITIES		**209,123**	**202,967**

Off-Balance Sheet Guarantees and Commitments	17		
Surety deposits		*6,994*	*0*
Guarantees granted to others		*19,205*	*23,083*
Total		***26,199***	***23,082***

Cairo Communication Group
Consolidated Income Statement
for the financial year ending 30 September 2004

(€ thousands)	Notes	2003-2004 Financial Year	2002-2003 Financial Year
OPERATING REVENUES	21		
Sales		**183,973**	**152,905**
Less: advertising agency discounts		(22,025)	(19,528)
Net sales		**161,948**	**133,377**
Finished products inventory movements		(124)	(322)
Other operating revenues		3,862	2,526
TOTAL OPERATING REVENUES		**165,686**	**135,581**
OPERATING EXPENSES	22		
Materials and supplies		(14,507)	(4,891)
Advertising space/time fees and other services		(123,689)	(106,052)
Rental expenses		(1,439)	(1,294)
Personnel costs			
Wages and salaries		(8,589)	(6,826)
Social security charges		(2,418)	(2,014)
Employee termination benefits		(522)	(496)
Other		(4)	(49)
Total		(11,533)	(9,385)
Depreciation, amortisation and writedowns			
Amortisation		(5,999)	(5,731)
Depreciation		(392)	(358)
Trade receivables writedowns		(2,624)	(1,198)
Total		(9,015)	(7,287)
Materials and supplies inventory movements		(1,513)	(570)
Provisions for risks charges		0	(439)
Other operating expenses		(948)	(1,546)
TOTAL OPERATING EXPENSES		**(159,711)**	**(130,392)**
OPERATING PROFIT		**5,975**	**5,189**
FINANCE INCOME AND EXPENSES	23		
FINANCE INCOME			
Unconsolidated subsidiary		0	512
Other financial income		2,853	2,764
Total		**2,853**	**3,276**
FINANCE EXPENSES			
Unconsolidated subsidiary		0	0
Other financial expenses		(106)	(82)
Total		(106)	**(82)**
NET FINANCE INCOME		**2,747**	**3,194**
INVESTMENT WRITEDOWNS		(6)	0
NET EXCEPTIONAL EXPENSES	24	(174)	(1,281)
PROFIT BEFORE TAX		**8,542**	**7,102**
INCOME TAX	25	(1,904)	(2,088)
PROFIT BEFORE MINORITY INTEREST		**6,638**	**5,014**
MINORITY INTEREST		67	27
NET PROFIT		**6,705**	**5,041**

Cairo Communication Group
Consolidated Cash Flow Statement
for the Financial Year ending at 30 September 2004

(€ thousands)	2003-2004 Full Year	2002-2003 Full Year
Consolidated net profit	6,705	5,041
Depreciation and amortisation	6,391	6,089
Minority interests	(67)	(27)
Provision for termination benefits movements	304	219
Other provisions for liabilities and charges movements	(1,344)	210
Cash generated from operations	**11,989**	**11,532**
Trade receivables movements	2,635	(5,815)
Trade payables movements	10,250	14,047
Marketable securities movements (treasury shares)	(1,726)	(359)
Accrued expenses and deferred income movements	430	(859)
Inventory	(1,389)	(249)
NET CASH FROM OPERATING ACTIVITIES	**22,189**	**18,297**
INVESTING ACTIVITIES		
Intangible and tangible assets acquisitions	(1,683)	(8,240)
Investments movements	20	9
NET CASH USED IN INVESTING ACTIVITIES	**(1,663)**	**(8,231)**
FINANCING ACTIVITIES		
Cash dividend distribution	(12,382)	(6,155)
Share capital increase through stock options exercise	1,832	0
Share capital and minority interest increases	800	20
NET CASH USED IN FINANCING ACTIVITIES	**(9,749)**	**(6,135)**
CASH AND CASH EQUIVALENTS – NEWLY CONSOLIDATED COMPANIES	**7,012**	**0**
FINANCIAL PERIOD NET CASH FLOW MOVEMENTS	**10,777**	**10,943**
CASH AND CASH EQUIVALENTS - OPENING BALANCE (1)	104,045	93,102
CASH AND CASH EQUIVALENTS - CLOSING BALANCE (1)	**114,822**	**104,045**

(1) Included € 6,000 thousand in insurance product investment, net of short-term borrowings

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Cairo Communication Group consolidated financial statements for the 2003-2004 financial year ending 30 September 2004, of which these notes are an integral part, were prepared from the Group's books of account, in accordance with Article 2423 of the Italian Civil Code.

These financial statements report a net profit of €6,705 thousand net of income tax based on current fiscal laws.

1. BASIS OF PREPARATION

The consolidated financial statements of Cairo Communication SpA and subsidiaries at 30 September 2004 have been prepared in accordance with Legislative Decree no. 127/1991 and the accounting principles of the Italian Commission for Accounting Standards of the National Council of Financial Accountants. These financial statements consist of a Balance Sheet, an Income Statement (pursuant to Articles 2424, 2424 b, 2425 and 2425 b of the Italian Civil Code and subsequent amendments), and these accompanying notes. Also included is a report on the management performance of the Group. Values expressed are in thousands of Euros.

Article 223 and following of the Legislative Decree 6/2003 prescribes that company financial statements covering the financial period 1 January 2004 to 30 September 2004 may be prepared using the new accounting basis or the previous basis. The Company has opted to continue with its previous accounting basis, noting that the adoption of the new accounting basis would not have had a significant impact on the 30 September 2004 accounts.

The financial statements at 30 September 2003 have been prepared in accordance with the principles prescribed in Articles 2423 and 2425, and the accounting principles of the Italian Commission for Accounting Standards of the National Council of Financial Accountants. These notes provide sufficient information in order to provide a fair and accurate representation of the Group's financial and economic position, even where not specifically required by legislation.

For the purpose of financial transparency, the following are also attached, as they form part of the Consolidated Financial Statements and Notes:

Appendix 1 – Subsidiaries' Legal Information

Appendix 2 - Analysis of Cairo Group Financial Results by Business Segment

The Notes, an integral part of these financial statements, detail, analyse, and in some cases, integrate the data included in the Balance Sheet and Income Statement, reporting information required under Italian Legal Decree 127/1991 and in accordance with consolidated financial statements accounting principles. These notes provide sufficient information in order to provide a fair and accurate representation of the Group's financial and economic position, even where not specifically required by legislation. Statement of Cairo Communication SpA and of the following directly and indirectly controlled subsidiaries:

Company	**Head Office**	**Share Capital at 30 Sept. 200З (€ thousands)**	**% Ownership**	**Financial Year-End**	**Business**	**Consolidation Method**
Cairo Communication SpA	Milan	4,074	Parent company	Sept. 30	Advertising	Full consolidation
Editoriale Giorgio Mondadori SpA	Milan	6,204	100	Dec. 31	Publishing	Full consolidation
Cairo Editore SpA	Milan	1,020	99.95	Dec. 31	Publishing	Full consolidation
Cairo Directory	Milan	2,000	60	Dec. 31	Publishing	Full consolidation
Cairo WEB Srl	Milan	47	100	Sept. 30	Advertising	Full consolidation
Il Trovatore SpA	Milan	25	80	Dec. 31	Internet	Full consolidation
Immobiledit Srl	Milan	5,610	100	Dec. 31	Property	Full consolidation
Edizioni Anabasi Srl	Milan	10	100	Dec. 31	Publishing	Full consolidation

The Extraordinary General Meeting of shareholders of 20 April 2004 approved the merger by incorporation of the wholly-owned subsidiary Cairo TV. The merger documentation was signed on 28 June 2004 and filed with the companies' register on 30 June, 2004.

During this year, Cairo Directory was fully consolidated, having been established by Cairo Communication during April 2004 with share capital of € 10,000. This was later transformed into a company for shares, with an increase in share capital of € 2 million. UT Communications (controlling shareholder, with 62% of the share capital of Cairo Communication SpA) participated in this share capital increase with a 40% share, with Cairo Communication partially renouncing the option right owed to them on the shares undersigned by the controlling shareholder. This is described more fully in_"Transactions Between The Controlling Shareholder, Group Companies and Related Parties" part of the Other Information section of the Group Directors' Report.

As at 30 September 2003, financial statements for subsidiaries Cairo Sport Srl and Cairo Pubblicità Srl have not been consolidated. They are accounted for on a cost basis instead of consolidated, given that they are presently inactive, and accordingly, their assets, liabilities, revenues and expenses are immaterial. The Group's consolidated financial statements have adopted the same year-end as the Group's Parent Company, Cairo Communication SpA - 30 September 2003. All of the subsidiaries' financial statements incorporated in the consolidated accounts were prepared using this year-end, and were certified by their respective Board of Directors and approved by their respective Shareholders' Meeting. These financial statements were prepared in accordance with Articles 2424, 2424 b, 2425 and 2425 b of the Italian Civil Code and subsequent amendments, adopting the valuation principles prescribed by Article 2426 of the Italian Civil Code, and modified where necessary by Group accounting standards in order to preclude any tax induced accounting.

For subsidiaries with legal financial year-ends different from that of the Group, special interim financial statements were prepared at 30 September 2003 using the consolidated financial statements accounting principles, as prescribed by current legislation.

2. CONSOLIDATION PRINCIPLES AND METHODS

The consolidated financial statements were prepared using the full consolidation method, whose major rules are summarized as follow:

- The parent company's equity stake in the subsidiary is replaced by the subsidiary's assets, liabilities, revenues and expenses on consolidation.
- The value of the parent company's equity stake in the subsidiary is based on the purchase price it paid to acquire its holding in the subsidiary. Any excess between the purchase price paid and the net book value of the net assets of the subsidiary acquired are first allocated to those specific assets whose fair market values exceed their net book values, with the remainder allocated to Acquisition Goodwill, which is amortised over a ten-year period.
- Unconsolidated subsidiary investments and results are separately disclosed in the financial statements.
- Intra-Group receivables and liabilities, revenues, expenses and dividends, and, unrealised profits and losses are eliminated.
- Asset value adjustments and related provisions recorded in company financial statements are also eliminated in accordance with Italian tax regulations.

3. VALUATION PRINCIPLES AND METHODS

The Group adopted the following general valuation principles in the preparation of the consolidated financial statements:

Assets, liabilities, revenues and expenses were valued taking into account the principles of going concern, prudence and relevance

Valuation methods must conform to those prescribed in Article 2426 of the Italian Civil Code and be consistent with those used in the preparation of the previous year's financial statements, unless otherwise justified in the Notes, as in the case of inventory.

The consolidated financial statements list comparative data from the previous financial year.

The Group has adopted the following specific valuation methods of significance:

Intangible assets

Intangible assets are valued at their acquisition price, net of related costs. They are amortised to reflect their remaining useful economic lives.

Intangible assets are written down to their market value when it is lower than its book value. This writedown is reversed in subsequent years if the conditions for writedown no longer apply.

Incorporation and listing costs

Incorporation and listing costs include those costs incurred by the Group in the establishment of companies and those relating to the listing of the Parent Company Cairo Communication SpA on the Milan New Market Stock Exchange. These costs are amortised on a straight-line basis over five years.

TV advertising space sales rights and computer software

These items are amortised based on the duration of their economic lives, which are listed in Note 4 to the Consolidated Financial Statements.

Publications titles

Publications titles are amortised over their remaining useful lives, not exceeding a period of twenty years. This amortisation period is regularly reviewed to take into account the economic performance of the company publishing the magazines.

Acquisition goodwill

Acquisition goodwill corresponds to that portion of the purchase price paid by the parent company that exceeds the net book value of the net assets of a subsidiary that it has acquired, which was not allocated to specific assets of the subsidiary. Acquisition goodwill is amortised over its remaining useful life, not exceeding ten years from the date of the subsidiary's acquisition.

Property, furniture and equipment

Property, Furniture and Equipment (PFE) assets are valued at their acquisition price, including direct charges, net of accumulated depreciation.

These assets are depreciated using the rates below, which reflect their remaining useful lives and economic factors:

General equipment	20%
Motor vehicles	20%-25%
Machinery	10%
Office equipment and furniture	10%-12%
Computer hardware	20%
Immaterial value assets	100%

PFE assets are depreciated at 50% of their depreciation rate during their first year of use, as prescribed by law. PFE assets are written down to their market value to reflect any permanent impairment in values; these writedowns may be subsequently reversed if the conditions for writedown no longer apply.

Maintenance costs are expensed, unless they prolong the life of the asset, in which case they are capitalised and depreciated.

Investments

Unconsolidated subsidiary

The Group's unconsolidated subsidiary is accounted for using the cost method, whose impact does not significantly differ from the equity method. Investments are recorded at their purchase or subscription acquisition cost and are written down in the event of permanent impairment arising from continuing losses. The writedown may be reversed if the conditions of impairment no longer apply.

Inventory

Inventory is valued at the lower of the purchase or production cost and its estimated net realisable value, which takes into account potential future production and direct sales costs.

Inventory cost is determined using the weighted-average-cost method.

Obsolete and slow turnover inventory is written down to reflect its net realisable value.

Receivables

All receivables are recorded at estimated net realisable value, with adequate allowances established for doubtful accounts. Specific and general risks are taken into account in determining the allowance for doubtful accounts for trade accounts receivable.

Marketable securities

Marketable securities are valued at the lower of their purchase cost and estimated net realisable value. Estimated net realisable value is derived from the average monthly price for September, with other market information used to determine market value for securities that are not publicly quoted.

Provision for employee retirement benefits

The provision for retirement benefits arises from the Group's cumulative liability to employees for services rendered, as prescribed by current legislation and employment contracts.

Other provisions for liabilities and charges

Provisions for liabilities and charges are established in order to provide for certain or probable future losses or liabilities whose amount and date of occurrence could not be determined at year-end. Legal proceedings currently under way have also been considered. The provisions reflect the best estimate based on currently available information. Specific accrued provisions and those that remain off-Balance Sheet are disclosed in Notes 14 and 17 to the Consolidated Financial Statements.

Liabilities

Liabilities arise from the Group's dealings with suppliers, banks and other financial institutions and third parties. They are recorded at their book value.

All liabilities are of short or medium term duration, with none due after five years.

Prepaids, deferrals and accruals

These arise from the payment or receipt of payment for services/goods not yet received/rendered or for services/goods that have been received/rendered but for which no invoice has yet been received/issued, in accordance with the matching principle.

Revenue and cost recognition

Revenue and costs are recognised on an accrual basis, resulting in the establishment of accruals and deferrals.

Advertising space sales revenue is recognised at the moment the advertisement is broadcast or published.

Magazine newsstands sales revenue is recognised at the moment the magazines are shipped, net of any returns.

Magazine subscription sales revenue is recognised when the related magazines are shipped.

Costs are expensed when revenue is recognised, notwithstanding the application of the prudence and accrual principles.

In particular, new titles pre-publishing and launch costs are expensed directly to net profit in the half-year the first issue of these titles are published, in order that they be matched to the costs of launching these titles and as a matter of prudence.

Of note, pre-publishing and launch costs relating to the new title “Settimanale Di Più” are to be allocated over the magazine’s first twelve months, in consideration of the extraordinary success this title is enjoying.

Income tax

Income tax is calculated based on a reasonable estimate of the financial year tax liability; it has been calculated for each consolidated company, taking into account the various exemptions, tax rates and applicable legislation.

Where applicable, deferred tax assets and liabilities have also been recorded, reflecting the temporary differences between assets and liabilities’ accounting book values and their corresponding income tax values.

Benefits arising from tax losses carried forward by certain subsidiaries, particularly in the Publishing business, are recognised only when realised, consistent with the practice followed in previous financial years and based on the principle of prudence, taking into account the uncertainty that exists regarding their recovery.

Off-Balance sheet guarantees and commitments

Off-Balance Sheet guarantees and surety bonds given to or received from third parties are valued at their nominal value.

CONSOLIDATED BALANCE SHEET NOTES

4. INTANGIBLE ASSETS

(€ thousands)	Incorporation and listing costs	Publications development	TV ad rights and software	Acquisition goodwill	Publication titles	Other	In-progress	Total
30 Sept. 2003	**1,462**	**0**	**10,394**	**3,439**	**3,987**	**229**	**0**	**19,511**
Additions	5	-	261	-	-	66	977	1309
Disposals	-	-	-	-	-	-	-	-
Reclassification	-	-	-	-	-	-	-	-
Amortisation	(1,459)	-	(3,576)	(604)	(264)	(96)	-	(5,999)
30 Sept. 2004	**8**	**0**	**7,079**	**2,835**	**3,723**	**199**	**977**	**14,821**

Incorporation and listing costs

Incorporation and listing costs relate primarily to the costs incurred listing the parent company's shares on the New Market of the Italian Stock Exchange (€ 1.4 million). These costs were capitalised as intangible assets in light of the long-term benefits arising to the Group of the parent company's share listing on the share exchange.

The remaining balance relates to incorporation costs incurred by other Group companies.

Until these assets are fully amortised, dividends may be distributed only if sufficient reserves are available for the amortisation of the remaining non-amortised costs.

TV advertising space sales rights and computer software

The net cost of these intangibles at 30 September 2004 amounted to € 3.1 million, after accumulated amortisation of € 6 million. TV advertising space sales rights relate mainly to the purchase cost of Cairo TV SpA, which was purchased for € 9.3 million during May 1998, representing the net assets acquired at the time of the purchase, consisting of a ten-year contract with the Tele+ television network giving the Group the exclusive rights to sell advertising space on Tele+ analogue and digital TV channels. These rights are being amortised over ten years from May 1998, in line with the terms of the contract until 30 June 2004 when the transmission of advertising brokered by Cairo was suspended.

As described below in the notes to "Off Balance Sheet Guarantees and Commitments", arbitration regarding this contract is ongoing. Sky Italia, who had purchased the broadcasting companies of the Tele+ Group, has also suspended the transmission of advertising brokered by Cairo on Sky Sport 1, Calcio Sky and Diretta Gol, channels on which the Company had been advertising since the establishment of a single platform on 31 July 2003.

The Board of Directors feels that the value of this asset (€ 3.1 million at 30 September 2004) is no greater than its recovery value and thus this figure should not be written down, in light of the defence given by the Company as part of the arbitration process against Sky Italia. This defence states that Sky Italia entered into the contract and the exclusion of Cairo Communication from advertising time sales activity constitutes a breach of contract, in light of the ten year commitment integral to the contract taken over by the Tele+ Group company as part of the sale of the share capital of Tele+ Pubblicità SpA, and then Cairo TV SpA The purchase price of this equity stake acquisition is reflected in full.

Also included in this figure is the residual value (€ 3.1 million net of accumulated amortisation of € 4.4 million) of the € 7.5 million non-recurring entrance fee paid to TV Internazionale SpA in order to acquire the exclusive rights to sell advertising time on behalf of the La7 network, which will be amortised over the term of this advertising time sales contract, that is 36 months from January 2003.

Software costs increased during the year, primarily as a result of the capitalisation of software development costs for the management of the assets cycle and advertising space sale activities. These costs are amortisable over a period of between one to five years.

Acquisition goodwill

The Group's major acquisition goodwill asset relates to the unallocated excess purchase price paid for its acquisition of Editoriale Giorgio Mondadori SpA (€ 1.5 million net of accumulated amortisation of € 2.4 million). Other acquisition goodwill relate to the residual shares in Cairo Editore SpA (formerly the Airone Company) from Giorgio Mondadori & Associati SpA in 2000 (€ 0.7 million net of accumulated amortisation of € 0.7 million), the acquisition of Cairo Pubblicità SpA (€ 0.4 million net of accumulated amortisation of € 0.4 million), the acquisition of Il Trovatore SpA (€ 0.2 million net of accumulated amortisation of € 0.2 million) and the acquisition of Edizioni Anabasi Srl (€ 0.1 million).

Acquisition goodwill is amortised over ten years.

In progress

This figure relates primarily to capitalised costs incurred during the start-up phase of Cairo Directory, established during April 2004 in order to allow the Group to enter the telephone directory market. In the first five months on this project, a team had been built with the objective of developing the project and launching the first sales campaign at the start of 2005. The first few months of the project have seen costs incurred and capitalised of € 0.9 million and further management costs allocated to the income statement of € 0.1 million.

Other intangible assets

This item relates primarily to the cost of leasehold improvements.

Publications titles

(€ thousands)	30 September 2003	Additions	Amortisation	30 September 2004
Bell'Italia	2,512	-	(168)	2,344
Bell'Europa	1,355	-	(88)	1,267
Other	120	-	(8)	112
Total	**3,987**	**-**	**(264)**	**3,723**

The "Bell'Italia", "Bell'Europa", "magazine titles are amortised over a twenty-year time period, as are other publication titles, which primarily consist of the "Arte" and "Antiquariato" titles.

5. PROPERTY, FURNITURE AND EQUIPMENT

(€ thousands)	Land / Buildings	Machinery	Equipment	Other	In progress	Total
30 September 2003	**1,729**	**43**	**5**	**1,272**	**-**	**3,049**
Additions	-	19	-	355	-	374
Reclassifications	-	-	-	-	-	0
Disposals	-	-	-	-	-	0
Depreciation	(58)	(6)	(2)	(326)	-	(392)
30 September 2004	**1,671**	**56**	**3**	**1,301**	**-**	**3,031**

6. INVESTMENTS

Shareholdings

(€ thousands)	30 Sept. 2003	Additions	Disposals	Writedowns	30 Sept. 2004
Subsidiaries					
Cairo Pubblicità	10	-	-	-	10
Srl Cairo Sport Srl	10	5	-	(5)	10
Other					
Constructa Srl	0	-	-	-	0
Nuova Canottieri Olona Srl	11	-	-	-	11

Consedit Srl	0	-	-	-	0
Total	**31**	**5**	**0**	**(5)**	**31**

As these Group's unconsolidated subsidiaries are accounted for using the cost method, given that one company is inactive and the other recently established. The use of this method does not provide results that are significantly different from the use of the equity method.

Financial receivables

Financial receivables relate to an interest free loan to the unconsolidated subsidiary, Cairo Pubblicità Srl and deposits and prepaid pension benefits for employees taxes, calculated pursuant to Article 104/97 of the Italian Civil Code and reassessed in accordance with regulations currently in force.

7. INVENTORY

The Group's inventory assets arise solely from its Publishing business (Editoriale Giorgio Mondadori Group and Cairo Editor SpA) and can be detailed as follows:

(€ thousands)	30 Sept. 2004	30 Sept. 2003	Change
Materials and supplies	3,176	1,663	1,513
Work-in-progress	401	293	108
Finished products and merchandise	80	130	(50)
Books	350	532	(182)
Total	**4,007**	**2,618**	**1,389**

Materials and supplies

Materials and supplies are valued at the lower of purchase or production cost and their estimated net realisable value, based on market performance at year-end.

Work-in-progress

Work-in-progress comprises purchase or production costs incurred for publications not yet issued by Editoriale Giorgio Mondadori, as well as editorial statements not yet used which are available for future publications, and work in progress on forthcoming editions.

Finished products

Finished products include Editoriale Giorgio Mondadori SpA inventory, videocassettes, monographic issues and books in store, valued at the lower of cost and net realisable value.

8. RECEIVABLES

Trade accounts receivable

(€ thousands)	30 Sept. 2004	30 Sept. 2003	Change
Gross book value	65,235	68,151	(2,916)
Allowance for doubtful accounts	(6,476)	(4,660)	(1,816)
Total	**58,759**	**63,491**	**(4,732)**

Trade accounts receivable are recorded net of an allowance for doubtful accounts that incorporates estimates of both specific collection risks and general market collection risks. This allowance also takes into account the allocation to the Group's media clients of a percentage of losses on receivables, equal to the percentage of sales revenue allocated, pursuant to advertising space sales contracts signed between the two parties.

The allowance for doubtful accounts was determined in relation to the risks of ineligibility of receivables included among "Other Receivables".

The € 3,456 payable to distributors for future returns was included in this figure in the financial statements at 30 September 2003.

Other receivables

(€ thousands)	30 Sept. 2004	30 Sept. 2003	Change
Interest withholdings receivable from State	10	10	0
IRAP receivables from State	104	202	(98)
Direct tax receivable	10	136	(126)
Prepaid tax receivable	4,160	2,382	1,778
Tax receivable	51	51	0
VAT receivable	962	784	178
Dividend tax refund receivable	-	207	(207)
Receivables from Edit Srl and Soldionline	2,759	2,756	3
Shipping receivables	164	84	80
Credit card overpayments	49	58	(9)
Various other receivables	1,445	947	498
Total	**9,714**	**7,617**	**2,097**

Current income tax receivables from the State (interest withholdings, and IRPEG and IRAP receivables) were netted against related tax liabilities where possible.

In order to facilitate better analysis of these receivables, the following should be considered:

- Direct tax receivables comprise overpayment of current tax liabilities and receivables relating to refunds lodged.
- Prepaid tax receivable arises from the recognition at 30 September 2004 of the prepayment of deferred deducible costs, and costs relating to consolidation.

Receivables from Edit Srl and Soldionline comprise € 2.4 million in receivables owed to it by the publisher Edit Srl, pursuant to a 2001 licensing agreement. Cairo Communication, Edit and Edibella23 (cessionary during March 2004 for the branch of the company dealing with "Bella" magazine) together made an early withdrawal from the advertising sales contract at 31 March 2004. An arrangement has been agreed and accepted by Edit and endorsed by Prima Editoriale, parent company of Edit and Edibella (with their declaration of renunciation of the right to recourse). This consists of payment to Edit of € 2.7 million, net of interest calculated on a lump-sum basis, by way of 32 payments on a consecutive monthly basis from May 2004. If even one payment is missed, the terms for all future payments are forfeited. With regard to the agreed plan of re-entry, the expiry dates of the rates for August, September and October remain partially outstanding. Edit has gone into voluntary liquidation and it is forecast that Edit will try to conclude a procedure of preventive agreement Thus the shares necessary to recoup the money outstanding (€ 2.4 million at 30 September 2004,) including an examination of the guarantees given by Prima Editoriale in the first instance, will be activated.

- The Soldionline receivable amounts to € 0.4 million and is discussed in more detail in Note 18 to the Consolidated Financial Statements.
- Various other receivables relate to overpayments made to the Social Security Authority and loans made to partners and employees.

As detailed above, the allowance for doubtful accounts also takes into account the risk of bad debts included in the heading "Other Credits", linked in particular to the position with Edit Srl.

9. MARKETABLE SECURITIES

Marketable securities at 30 September 2004 comprised € 0.8 million in treasury shares (€ 1.2 million at 30 September 2003), € 6 million in insurance financial products (unchanged on 30 September 2003) and € 82 thousand in other marketable securities (unchanged on 30 September 2003).

Treasury shares

At 30 September 2004, the Group held 26,224 of the parent company's (Cairo Communication SpA) shares, with a par value of € 0.52 each, valued at their weighted-average cost of € 29.15 per share, compared to an average September 2004 share price of € 27.09. Between 30 September 2004 and the date of approval of these financial statements, 26,000 treasury shares have been sold at € 29.67 per share.

These shares were acquired pursuant to the share buyback programme authorised by the Shareholders' Meetings of 17 December 2003, as described in Directors' Report Section – Italian Civil Code Article 2428 Sections 3 & 4 Disclosures.

Insurance financial products and non-Group marketable securities

The Group has subscribed to a € 6 million insurance financial product, Elios Coupon, offered by Antonveneta Vita. This insurance policy provides a minimum annual return of 3% net of management fees. This policy provides for early reimbursement without penalty before the December 2004 expiry date. In addition the Group holds € 82,272 in Italian Treasury Bonds maturing in July 2007.

10. BANK AND CASH

Bank and cash comprises bank account balances and cash on hand at year-end.

(€ thousands)	30 Sept. 2004	30 Sept. 2003	Change
Bank	101,729	98,057	3,672
Surety deposits	6,995	-	6,995
Cash	159	9	150
Total	**108,883**	**98,066**	**10,817**

Evolution of Consolidated Net Financial Position

(€ thousands)	30 Sept. 2004	30 Sept. 2003	Change
Bank and cash	108,883	98,065	10,818
Non-Group marketable securities	82	82	0
Insurance financial products	6,000	6,000	0
Bank loans	(61)	(21)	(40)
Net Financial Assets	**114,904**	**104,127**	**10,778**
Immobiledit borrowings		0	
Net Financial Position	**114,904**	**104,127**	**10,778**

The Group manages its cash and bank assets very prudently, investing for the most part in interbank deposits. Net financial assets includes a surety deposit of € 6,985,651 (€ 6,994,696 net of interest accrued) made by Cairo Communication SpA pending the arbitrator's decision regarding the dispute between Cairo Communication and Tele+ SpA, as described in the Note 18 to the consolidated financial statements.

This deposit was made as a result of a settlement agreement reached by the parties during appeal proceedings for a precautionary seizure requested by the Company before the Court at Milan, as a guarantee on the Company's right to damages from Tele+ SpA. The Company had announced their claim for damages during the arbitration proceedings undertaken by Tele+, in case the ten year advertising contract for Tele+ were not taken over by Sky Italia (according to the questions posed by the Company during arbitration with the latter, the decision on which has been expected for some months now) and instead was held by Tele+. Cairo Communication has lodged the requisite funds in accordance with Tele+ accounts from 2004, awaiting the arbitrators' decision.

The money order deposited at the bank prescribes the ways in which the parties may settle the sum in the account with a single or double signature, in view of the outcome of the arbitrators' award. The interest payable from the opening date of the account to the date of closure will be paid along with the principal, pro-rata, to the appropriate parties.

Cairo and Tele+ have already met to seek an alternative solution for this deposit, by way of a current account held in the names of both companies, which is currently being formalised.

As disclosed in the Consolidated Cash Flow Statement, the net decrease in Group cash and cash equivalents during the 2003-2004 arises from the payment of a € 12.4 million cash dividend, which was financed by operating cash flows.

11. PREPAID EXPENSES AND ACCRUED INCOME

(€ thousands)	30 Sept. 2004	30 Sept. 2003	Change
Prepaid expenses	143	157	(14)
Accrued income	2,729	972	1,757
Total	**2,872**	**1,129**	**1,743**

Accrued income at 30 September 2004 relates primarily to interest earned on the financial insurance product "Elios Coupon" from Antonveneta Vita.

Prepaid expenses primarily comprise insurance expenses and other expenses paid in advance whose benefits will be enjoyed during the 2004-2004 financial year.

Accrued expenses include € 1.6 million in "Settimanale Di Più" magazine pre-publishing and launch costs, which were allocated over its first twelve months.

Accrued income also includes insurance and general costs incurred during this year but relating to the coming year.

12. EQUITY

At 30 September 2004, Group equity amounted to € 129.7 million, analysed as follows:

(€ thousands)	Share capital	Share premium	Legal reserve	Treasury share reserve	Retained earnings	FY net profit	Total
30 Sept. 2003	**4,030**	**112,871**	**806**	**1,195**	**9,646**	**5,041**	**133,589**
Dividend distribution	-	(2,282)	-	-	(5,059)	(5,041)	(12,382)
Treasury share reserve alloc.	-	-	-	(430)	430	-	-
Share capital increase	44	1,788	-	-	-	-	1,832
2003-2004 net profit	-	-	-	-	-	6,705	6,705
30 Sept. 2004	**4,074**	**112,377**	**806**	**765**	**5,016**	**6,705**	**129,743**

Shareholders of Cairo Communication SpA approved at their Meeting of 17 December 2003 the payment of € 12.4 million in cash dividends (€ 1.60 per share), to holders of Company shares (excluding treasury shares). This dividend comprised € 0.295 from the share premium reserve and € 1.305 from the 2002-2003 financial year net profit.

On 10 December 2003, the Board of Directors of Cairo Communication SpA allocated the second block of shares pursuant to the stock option plan approved by the Extraordinary General Meeting of 19 April 2000 and approved the allocation provisions concerning the aforementioned options to specific beneficiaries, as described in the Directors' Report. This block includes the options not exercised from the first block, and thus options have been granted for 88,000 shares, with an exercise price not exceeding € 21.72 per share. At 30 September 2004, the final date for the exercise of the second block of the stock option plan, rights had been exercised of 84,340 shares, equivalent to a share capital increase of € 43,856.80.

Reconciliation of Parent Company and Group Equity and Net Profit Balances

(€ thousands)	Equity	Net Profit
Cairo Communication SpA balances at 30 September 2003	**130,805**	**5,041**
Eliminations:		
Difference between investment book value and subsidiary equity value	4,501	-
Adjustment for subsidiary's investment book value write-down	-	3,456
Allocations of excess consideration paid over net book values of net assets acquired:		
Acquisition goodwill	2,835	(604)
Excess fair market values	3,152	(676)
Transfer of Cairo TV merger deficit	(6,018)	1,504
Elimination of inter-Group profits, net of income tax	(4,367)	520
Dividend distribution	-	(2,398)
Other adjustments	(1,165)	(176)
Cairo Communication Group balances at 30 September 2004	**129,743**	**6,705**

13. MINORITY INTEREST

(€ thousands)	30 Sept. 2004	30 Sept. 2003	Change
Total	**745**	**12**	**(733)**

Minority interest at 30 September 2004 relates primarily to third party shareholdings in the Group's Cairo Directory subsidiary.

14. PROVISIONS FOR LIABILITIES AND CHARGES

Provision for employee retirement benefits

This provision was established for all personnel, as prescribed by law.

(€ thousands)	30 September 2003	30 September 2004
Opening balance	**2,803**	**2,584**
Charges	522	496
Reversals	(218)	(277)
Closing balance	**3,107**	**2,803**

Analysis of workforce size by job classification

	30 Sept. 2004	30 Sept. 2003	2003-2004 Average
Executive managers	20	12	16
Other managers	22	15	19
Employees	112	100	106
Journalists	51	40	45
Freelance journalists	6	6	6
Trainees	5	4	4
Total	**216**	**177**	**196**

All other provisions

(€ thousands)	30 September 2004	30 September 2003	Change
Provision for disputes and charges	583	490	68
Provision for deferred tax	262	466	466
Provision for publishing inventory	115	115	60
Other provisions	1,045	2,278	1,425
Total	**2,005**	**3,349**	**2,019**

Movements in provisions can be analysed as follows:

	Provision for disputes and charges	Provision for deferred tax	Provision for publishing inventory	Other provisions	Total
30 September 2003	**490**	**466**	**115**	**2,278**	**3,349**
Charges	93	40	0	0	133
Reversals	0	(244)	0	(1,233)	(1,477)
30 September 2004	**583**	**262**	**115**	**1,045**	**2,005**

The provision for disputes was established by Cairo TV SpA and Cairo Communication SpA, in order to reflect potential disputes with media clients.

The increase in provisions for liabilities and charges arises from the first time consolidation of Immobiledit Srl, which had established a € 1.3 million provision at 30 September 2004 concerning pending litigation, as described in the notes to the Consolidated Financial Statements, relating to the preliminary contract of sale of property at Via A. Ponti, Milan. This case was settled in favour of Immobiledit Srl, with judgement No. 4729, of 27 April 2004. The court dismissed all claims by the other party and further, by request of Immobiledit Srl, declared the contract annulled (and its subsequent renewal), due to contractual non-fulfilment on the part of the claimant, who was declared liable to pay damages to Immobiledit Srl, to be established in a separate court sitting, and all costs. The claimant lodged an appeal. Examining the sentence, the appeal and the appearance of reply, following legal advice, the Board of Directors of this subsidiary company feel that the topics raised in the appeal by the claimant will not lead to any concrete or consistent risk that the Court of Appeal will modify the sentence handed down by the original Court. Thus the part of the provision relating to this case (€ 1.1 million) has been released and has been entered in the financial statements as “Other revenue”.

The increase in the deferred tax provision reflects the € 40 million provision made relating to the dividend receivable from the Cairo Editore subsidiary authorised by the Shareholders’ Meeting of this subsidiary on 29 September 2004 and then paid on 1 October 2004.

Other provisions were established to provide for charges that may arise from current legal proceedings and contractual disputes that remain unsettled.

15. LIABILITIES

Borrowings

(€ thousands)	30 Sept. 2004	30 Sept. 2003	Change
Borrowings from banks – due within 1 year	61	21	40
Total	**61**	**21**	**40**

Advances

(€ thousands)	30 Sept. 2004	30 Sept. 2003	Change
Total	**2,107**	**1,971**	**136**

Advances relate to that portion of subscription payments received from customers for whom no magazines have yet been issued, as well as prepayments for specially commissioned future editions.

Trade payables

Trade payables amounted to € 63,120 thousand, up € 8,107 thousand on the previous year-end.

Tax liabilities

(€ thousands)	30 Sept. 2004	30 Sept. 2003	Change
Payroll deductions - employees	305	147	158
Payroll deductions – contract workers	141	172	(31)
IRPEG payables	1,691	546	1,145
IRAP payables	10	525	(515)
VAT	146	457	(311)
Other	347	11	336
Total	**2,640**	**1,858**	**782**

Current income tax receivables from the State (interest withholdings, and IRPEG and IRAP receivables) were netted against related tax liabilities where possible.

Cairo Communication SpA and some of its subsidiaries, after taking into account the diversity and number of tax provisions and their difficulty of application, have elected to comply with the provisions of Law 289 of 27 December 2003 as prescribed in Articles 8 and 9, and the modifications to Law 350 of 4 December 2003, for direct taxation purposes only. The full cost of this matter to the Group is approximately € 0.2 million. It has been charged as an exceptional expense with this liability anticipated to be liquidated over the coming years.

Social security liabilities

Social security liabilities amounted to € 617 thousand, down € 252 thousand over the previous year-end. The Group has provided for the settlement of legal obligations with regard to the payment of social security liabilities and the deductions made in substitution of taxes.

Other liabilities

(€ thousands)	30 Sept. 2004	30 Sept. 2003	Change
Personnel liabilities (holiday pay, incentives)	1,607	1,345	263
Various	3,310	2,600	710
Total	**4,917**	**3,945**	**973**

Various includes some € 2.2 million (€ 1.8 million at 30 September 2003) relating to Publishing business receivables whose collection is unlikely and whose loss has yet to be recognised

Distributor payables totalling € 3,456 were included in this figure in the financial statements at 30 September 2003. They have now been reclassified as trade receivables, in order to reflect more closely the position during this financial year.

16. ACCRUED EXPENSES AND DEFERRED INCOME

(€ thousands)	30 Sept. 2004	30 Sept. 2003	Change
Accrued expenses	-	1	(1)
Deferred income	61	43	18
Total	**61**	**43**	**18**

Like liabilities, these items are recognised in accordance with the matching principle.

17. OFF-BALANCE SHEET GUARANTEES AND COMMITMENTS

Guarantees

Guarantees primarily relate to a € 19 million guarantee given to Banca Antonveneta regarding assurances given by the latter to La7 Televisione SpA (Telecom Group) concerning the payment of minimum guaranteed fees specified in its contract with the La7 television network, which grant Cairo the exclusive rights to sell advertising time on this network channels, as described in Note 17 to the Consolidated Financial Statements. This guarantee expires on 15 June 2005 and is renewable annually for an amount not greater than that of the preceding year, with predetermined mechanisms in place for the reduction of the commitment.

The other guarantees held at 30 September 2004 comprise guarantees given to financial institutions on behalf of third parties, primarily relating to property leases.

Commitments

Regarding media advertising space sales rights, Cairo Group is party to various agreements with third party media companies. The principal agreements and related commitments are summarised as follows:

1. On 9 November 2003, Cairo Communication SpA signed a three-year contract (2003-2005) with La7 Televisione SpA (Telecom Group), broadcaster of the La7 TV network, and renewable for another three-year period if certain agreed objectives are met, giving Cairo the exclusive rights to sell advertising space on its channels. The contract provides for average minimum guaranteed fees of € 45.8 million per year over three years. La7 has given a commitment to maintain predetermined viewing audience numbers.

   Cairo Communication issued a surety bond in guarantee of the above minimum annual fees.
2. The Group subsidiary, Cairo TV SpA, signed in 1998 an exclusive ten-year contract with the Tele+ television network. 2003 was a watershed year for the Italian pay TV market, with the arrival of Sky and the creation of a single satellite pay TV network for Italy from the merger of the Tele+ and Stream satellite TV networks. Channels formerly broadcast on the Tele+ satellite TV network are now broadcast on the Sky Italia satellite TV network, effective from 31 July 2003. Subsequently, as part of this operation, the broadcasting companies in the Tele+ Group were taken over by Sky Italia (formerly Stream SpA). From 31 July 2003, advertising time sales by Cairo TV were limited to Italian Premier League Football (Serie A) matches, both live and time delayed broadcasts, as well as the Diretta Gol, Calcio Sky and other sports shows broadcast on Sky Sport 1, and then on 1 July 2004 advertising time sales by Cairo TV were suspended completely.

In December 2003, the Group's Cairo TV subsidiary, having nominated Guido Rossi as its arbitrator, entered into arbitration proceedings regarding its right of execution of a contract it signed with Tele+ in May 1998. This contract had awarded it the exclusive right to sell advertising time on Tele+ channels (currently limited to advertising time for Italian Serie A Football matches - live and time delayed broadcasts, and Diretta Gol, Calcio Sky and other sports shows broadcast on Sky Sport 1), which Sky Italia Srl took over when it acquired the Tele+ Group of companies. Cairo TV is also seeking a restraining order in relation to Sky Italia Srl regarding the violation of this exclusive contract, and damages for the non-fulfilment of the contract by Sky Italia Srl.

Sky Italia Srl has nominated Piero Schlesinger as its arbitrator and the two arbitrators jointly nominated Riccardo Luzzato chairman of the Board of Arbitrators. Sky Italia is contesting these claims through the Board of Arbitrators, denying having entered into the contract, which they seek to void pursuant to Cairo TV's alleged failure to discharge its responsibilities.

Prior to the arbitration process, Cairo TV had never received any notice of breach of agreement, and continues to post exceptional advertising time sales results, which have nearly tripled during the first five years, despite the failure on the part of the Tele+ Group to have reached the subscription levels forecast in the contract. Thus, it is Cairo TV's view that this agreement will be extended for a further 2 to 3 years beyond its current scheduled expiry date of 31 December 2007, as existing agreement conditions have been fulfilled.

Arbitration is ongoing. The Board of Arbitrators has taken into account matters relating to certain exceptions, regarding process and merit, raised by Sky (including the matter of the taking over of the contract) and written defence statements are currently being deposited.

The aforementioned contract has generated € 36 million in revenue during the October 2003 – June 2004 period (€ 7.2 million net of editorial fees and agency discounts), which represents over 19% of the € 188 million in Group sales for the 2003-2004 financial year.

As notified in June 2004, Tele+ has now undertaken court proceedings against Cairo TV SpA, nominating Prof. Vittorio Colesanti as arbitrator, requesting that the contract (which it deems to have made under its own name, and not representing the Tele+ operating companies) be dissolved, due to breach of the contract on the part of Cairo TV (these are the same claims made by Sky Italia in the aforementioned arbitration, which were never raised by Tele+ before Sky's arrival and the beginning of the related arbitration). They are also requesting damages from Cairo TV. Cairo Communication, incorporating Cairo TV, has nominated Prof. Guido Rossi as arbitrator and has announced its intention to request that Tele+ claims be dismissed as totally groundless and has announced its intention to seek compensation from Tele+.

The Board of Arbitrators held a hearing on 28 September 2004 with the nominated Chairman of the Board, Prof. Raffaele Nobili. The Board are expected to fix the terms by which written defence statements may be lodged.

The Board of Directors feels that the outcome of the arbitration process will have no impact on the 30 September 2004 accounts.

18. CONTINGENCIES

1. The Group subsidiary Cairo Web Srl has initiated legal proceedings against Soldionline.it SpA, arising from an advertising space sales contract, which expired on 31 August 2002. Pursuant to the provisions of this contract, Cairo Web Srl is seeking payment of € 377 thousand owed to it, which is included in net assets. Soldionline.it SpA appeared in court in November 2003, contesting the claim on grounds of contractual non-fulfilment by Cairo Web Srl, regarding advertising space sales commitments (for which there were no terms or conditions set, other than the payment of a guaranteed minimum fee), and seeking compensation for damages. As this claim has no foundation, no provision has been established.

2. A former shareholder of the Group's subsidiary Il Trovatore SpA, who was not involved in the sale of this firm to the Group, has initiated proceedings against the current minority shareholders, which indirectly involves Cairo Communication SpA, claiming that the contract through which he sold his share in the limited partnership Il Trovatore was null and void, as was the transformation of same into a limited liability company. He is also requesting that the subsequent contract of purchase by Cairo Communication be voided. Based on legal advice received, no provision has been established in light of the unfounded nature of this claim.

19. LIABILITIES AND RECEIVABLES DUE AFTER FIVE YEARS

The Group had no receivables or liabilities that were due after five years at 30 September 2004.

20. CAPITALISED FINANCE EXPENSES

The Group did not capitalise any of its finance expenses.

CONSOLIDATED INCOME STATEMENT NOTES

The following notes detail the major revenues realised and expenses incurred by the Group during its 2003-2004 financial year ending 30 September 2004.

21. OPERATING REVENUES

Operating revenue components (sales, advertising agency discounts, inventory movements and other operating revenues) are analysed by nature and by major Group business segments, of which there are two, **Advertising** Space Selling and Magazine **Publishing** (with the latter business comprising the Editoriale Giorgio Mondadori Group of companies), in order to provide the reader with relevant and transparent information on the Group's operating performances.

Operating revenues are not analysed by geographic region as all of the Group's operating revenues are realised in Italy.

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

(€ thousands) **Financial year ending 30 September**	**2004**			**2003**		
	Advertising	**Publishing**	**Total**	**Advertising**	**Publishing**	**Total**
TV advertising time sales	124,513	-	**124,513**	97,777	-	**97,777**
Print media advertising space sales	10,394	20,152	**30,546**	29,080	14,023	**43,103**
Stadium signs and electronic billboards advertising space sales	10	-	**10**	201	-	**201**
Internet advertising time sales	63	-	**63**	143	-	**143**
Magazine over-the-counter sales	-	25,431	**25,431**	-	7,776	**7,776**
Magazine subscription sales	-	3,392	**3,392**	-	3,176	**3,176**
Audiovisual and other sales	-	116	**116**	-	78	**78**
Books and catalogues	-	629	**629**	-	907	**907**
VAT relating to publications	-	(727)	**(727)**	-	(256)	**(256)**
Total - Sales	**134,980**	**48,993**	**183,973**	**127,201**	**25,704**	**152,905**
Other operating revenues	3,070	792	**3,862**	1,931	595	**2,526**
Total - Gross Operating Revenues	**138,050**	**49,785**	**187,835**	**129,132**	**26,299**	**155,431**

Finished products inventory movements

These movements arise from the ordinary activities of the magazine publishing companies Società Editoriale Giorgio Mondadori SpA and Cairo Editore SpA.

Other operating revenues

(thousands)	2003-2004 FY			2002-2003 FY		
	Advertising	Publishing	Total	Advertising	Publishing	Total
Rebilled costs to ad agencies	79	-	**79**	69	-	**69**
Rebilled technical costs	436	-	**436**	968	-	**968**
Allowances and discounts	-	-	**-**	-	-	**0**
Credit card sales	-	100	**100**	-	57	**57**
Various	2,555	692	**3,247**	894	538	**1,482**
Total	**3,070**	**792**	**3,862**	**1,931**	**595**	**2,526**

Various revenues primarily comprise contributions from third parties for promotional activities, revenues from the recycling of obsolete inventory and capital gains.

22. OPERATING EXPENSES

Materials and supplies

Materials & supplies expenses arise from the ordinary activities of the Editoriale Giorgio Mondadori Group:

(€ thousands)	2003-2004 FY	2002-2003 FY
Paper	12,727	4,843
Other	1,780	48
Total	**14,507**	**4,891**

Advertising space fees and other services

(€ thousands)	2003-2004 FY			2002-2003 FY		
	Advertising	Publishing	Total	Advertising	Publishing	Total
Advertising space fees	85,950	-	**85,950**	80,303	-	**80,303**
Intermediary remuneration	2,079	-	**2,079**	2,181	-	**2,181**
Agents commissions	4,629	-	**4,629**	5,147	-	**5,147**
Technical costs	363	-	**363**	386	-	**386**
Administrative costs	2,163	2,015	**4,178**	1,503	1,389	**2,892**
Consultants	419	6,778	**7,197**	364	3,780	**4,144**
Subcontractors fees	-	8,518	**8,518**	-	4,266	**4,266**
Advertising and promotion	-	4,043	**4,043**	163	1,715	**1,878**
Titles pre-publishing and launch	-	2,024	**2,024**	-	1,464	**1,464**
Organizational and general costs	2,688	-	**2,688**	2,531	-	**2,531**
Other	-	2,020	**2,020**	-	860	**860**
Total	**98,291**	**25,398**	**123,689**	**92,578**	**13,474**	**106,052**

As previously discussed, advertising sales revenues and profit margins realised by Cairo during the 2004 calendar year from its agreement with the La7 TV network were lower in 2003 than what will be achieved in subsequent years as a result of agreement specificities relating to the first year.

Materials and supplies inventory movements

These movements arise from the ordinary activities of the magazine publishing companies Società Editoriale Giorgio Mondadori SpA and Cairo Editore SpA.

Other operating expenses

(€ thousands)	2003-2004 FY			2002-2003 FY		
	Advertising	**Publishing**	**Total**	**Advertising**	**Publishing**	**Total**
Deductible taxes	39	46	**85**	35	57	**92**
Receivables write-offs	252	0	**252**	285	0	**285**
Writedowns	287	130	**417**	272	302	**574**
Other	13	181	**194**	152	443	**595**
Total	**591**	**357**	**948**	**744**	**802**	**1,546**

23. FINANCE INCOME AND EXPENSES

Financial Income

Group companies did not collect dividends from non-Group companies during the financial year.

(€ thousands)	2003-2004 FY			2002-2003 FY		
	Advertising	**Publishing**	**Total**	**Advertising**	**Publishing**	**Total**
Unconsolidated subsidiary income	-	-	**-**	512	-	**512**
Other finance income						
Bank interest income	1,759	120	**1,879**	2,493	77	**2,570**
Marketable securities interest income	191	-	**191**	-	-	**-**
Marketable securities other income	712	-	**712**	11	-	**11**
FOREX gains	-	-	**-**	-	4	**4**
Miscellaneous	72	-	**72**	179	-	**179**
Other finance income total	**2,733**	**120**	**2,853**	**2,683**	**81**	**2,764**

Unconsolidated subsidiary finance income relates to the dividend tax credit earned on cash dividends received.

Interest income was earned on short-term demand deposits, on current accounts and on marketable securities as a result of the investment of funds arising from the flotation of the parent company.

Marketable securities income comprises capital gains realised during this year on the sale of treasury shares, totalling € 625 thousand.

Finance expenses

(€ thousands)	2003-2004 FY			2002-2003 FY		
	Advertising	Publishing	Total	Advertising	Publishing	Total
Bank interest expenses	16	-	**16**	4	-	**4**
Borrowings interest expenses	-	-	**-**	-	-	**-**
Other interest expenses	-	-	**-**	-	-	**-**
Group borrowings interest expenses	-	-	**-**	-	-	**-**
'FOREX losses	-	-	**-**	-	-	**-**
Various	90	-	**90**	78	-	**78**
Other	106	0	**106**	82	0	**82**

24. EXCEPTIONAL INCOME AND EXPENSES

Exceptional expenses

(€ thousands)	2003-2004 FY			2002-2003 FY		
	Advertising	Publishing	Total	Advertising	Publishing	Total
Previous financial year income tax	-	-	**-**	4	-	**4**
Writedowns	170	4	**174**	563	-	**563**
Arbitration costs	-	-	**-**	573	-	**573**
Other	-	-	**-**	-	141	**141**
Total	170	4	**174**	1,140	141	**1,281**

Cairo Communication SpA and some of its subsidiaries, after taking into account the diversity and number of tax provisions and their difficulty of application, have elected to comply with the provisions of Law 289 of 27 December 2002 as prescribed in Articles 8 and 9, for direct taxation purposes only. The Group will then continue with the procedures relating to the pending areas of contention regarding direct tax and VAT, pursuant to the procedure of Article 15 of the said law.

The full cost of this matter to the Group is approximately € 0.2 million. It has been charged as an exceptional expense, with this liability anticipated to be liquidated over the coming years.

25. INCOME TAX

(€ thousands)	2002-2003 FY	2003-2004 FY
IRPEG – current financial year	2,783	4,032
IRAP - current financial year	1,000	1,219
Prepaid income tax	(1,673)	(1,133)
Deferred income tax	(20)	-
Cairo TV dividend tax credit	-	(2,030)
Total	**1,904**	**2,088**

In accordance with Italian Accounting Principle 25, the Group recognised some prepaid income tax that related to some Group companies' deferred tax deductions (writedown provision credits).

Current tax liabilities are less than the calculated total, as the financial benefit relating to the utilisation of losses (€ 2.5 million) by a publishing company (with an effect of € 825 thousand) and the recognition of prepaid taxes relating to previous years for which the preconditions for their recognition have been met (€ 258 thousand).

The Group had the following tax loss benefit carry forwards at 30 September 2004, which primarily relate to its Publishing business operations, and which are recognised when realised:

Tax Loss Carry forwards - Expiry Date	Tax Loss	Tax Loss Benefits
Financial Year ending 30 Sept. 2004	1,005	332
Financial Year ending 30 Sept. 2005	205	68
Financial Year ending 30 Sept. 2006	-	-
Financial Year ending 30 Sept. 2007	-	-
Financial Year ending 30 Sept. 2008	824	272
Total	**2,034**	**672**

The related tax benefit will recorded in the book of accounts when realised.

OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. BOARD OF DIRECTORS' AND BOARD OF AUDITORS' REMUNERATION

Pursuant to Article 2427, Section 16 of the Italian Civil Code and stipulations by CONSOB (Italian Stock Exchange Supervisory Commission), the Group discloses the following remuneration awarded to the Board of Directors and Board of Auditors of Cairo Communication SpA for services rendered to the parent company and its subsidiaries during the financial year ending 30 September 2004:

Name	**Position**	**Term expiry date**	**Directors fees** (€ thousands)			**Other Remuneration** (€ thousands)		
			Cairo Communication	Cairo TV	Subsidiaries	Non-monetary	Bonuses	Other
Board of Directors								
Urbano R Cairo	Chairman	30 Sept. 2005	148	86	10	-	-	-
Uberto Fornara	Vice-Chairman & CEO	30 Sept. 2005	63	256	10	-	-	187
Roberto Cairo	Director	30 Sept. 2005	18	-	-	-	-	-
Antonio Ferraro	Director	30 Sept. 2005	18	-	-	-	-	
Marco Janni	Director	30 Sept. 2005	20	-	-	-	-	-
Antonio Magnocavallo	Director	30 Sept. 2005	20	-	10	-	-	-
Marco Pompignoli	Director	30 Sept. 2005	18	86	10	-	-	100
Roberto Rezzonico	Director	30 Sept. 2005	20	-	-	-	-	-
Board of Auditors								
Mauro Sala	Chairman	30 Sept. 2005	20	-	11			
Marco Baccani	Principal Auditor	30 Sept. 2005	14	-	4	-	-	-
Enrico Muscato	Principal Auditor	30 Sept. 2005	14	-	11	-	-	-

The Annual General Meeting of Shareholders of 17 December 2003 approved the € 150,000 in compensation for the Board of Directors. The Board of Directors meeting on 26 November 2003 approved, pursuant to Article 2389 of the Italian Civil Code, compensation of € 130,000 for the Chairman, Urbano Cairo and compensation of € 45,000 for the current CEO Uberto Fornara.

27. SHARE CAPITAL COMPOSITION

At 30 September 2004, Cairo Communication SpA share capital amounted to € 4.07 million, comprising 7.83 million shares with a par value each of € 0.52.

Chairman of the Board of Directors

Urbano R. Cairo

APPENDIX 1
SUBSIDIARIES' LEGAL INFORMATION
(Article 2427 of the Italian Civil Code)

SUBSIDIARIES – DIRECTLY CONTROLLED

Name:	**Editoriale Giorgio Mondadori SpA**
Head Office:	Corso Magenta 55 - Milan - Italy
Share Capital:	€ 6,204,000
Equity at 31 December 2003:	10,138,435
2002-2003 Financial Year Net Profit:	3,147,145
Equity at 30 September 2004:	10,910,247
2003-2004 Financial Year Net Profit at 30 September 2004 (9 months):	771,812
Ownership Percentage:	100%

Name:	**Cairo Editore SpA**
Head Office:	Corso Magenta 55 - Milan - Italy
Share Capital:	€ 1,020,000
Equity at 31 December 2003:	5,347,064
2002-2003 Financial Year Net Loss:	(475,205)
Equity at 30 September 2004:	3,914,109
2003-2004 Financial Year Net Profit (9 months):	965,845
Ownership Percentage:	99.95%

Name:	**Cairo Web Srl**
Head Office:	Via Tucidide 56 - Milan - Italy
Share Capital:	€ 46,800
Equity at 30 September 2003:	159,070
2002-2003 Financial Year Net Loss:	(213,129)
Equity at 30 September 2004:	155,144
2003-2004 Financial Year Net Loss:	(3,926)
Ownership Percentage:	100%

Name:	**Il Trovatore SpA**
Head Office:	Via Tucidide 56 - Milan - Italy
Share Capital:	€ 25,000
Equity at 30 September 2003:	31,337
2002-2003 Financial Year Net Loss:	(118,036)
Equity at 30 September 2004:	(76,163)
2003-2004 Financial Year Net Loss at 30 September 2004 (9 month period):	(107,500)
Ownership Percentage:	80%

Name:	**Cairo Sport Srl**
Head Office:	Via Tucidide 56 - Milan - Italy
Share Capital:	€ 10,400
Equity at 31 December 2003:	10,332
2002-2003 Financial Year Net Loss:	(5,038)
Ownership Percentage:	100%

Name:	**Cairo Pubblicità Srl**
Head Office:	Via Tucidide 56 - Milan - Italy
Share Capital:	€ 10,000
Equity at 31 December 2003:	8,271
2002-2003 Financial Year Net Loss:	(1,279)
Ownership Percentage:	100%

Name:	**Cairo Directory**
Head Office:	Via Tucidide 56 - Milan - Italy
Share Capital:	€ 2,000,000
Equity at 30 September 2004:	1,901,114
2003-2004 Financial Year Net Loss (9 months):	(98,885)
Ownership Percentage:	100%

SUBSIDIARIES – INDIRECTLY CONTROLLED

Name:	**Immobiledit Srl**
Head Office:	Corso Magenta 55 - Milan - Italy
Share Capital:	€ 5,610,000
Equity at 31 December 2003:	5,311,512
2002-2003 Financial Year Net Profit:	51,647
Equity at 30 September 2004:	6,183,707
2003-2004 Financial Year Net Profit (9 months):	822,362
Ownership Percentage:	100%

Name:	**Edizioni Anabasi Srl**
Head Office:	Corso Magenta 55 - Milan - Italy
Share Capital:	€ 10,200
Equity at 31 December 2003:	8,086
2002-2003 Financial Year Net Loss:	(3,426)
Equity at 30 September 2004:	10,535
2003-2004 Financial Year Net Loss (9 months):	(5,551)
Ownership Percentage:	100%

APPENDIX 2
ANALYSIS OF CAIRO COMMUNICATION GROUP FINANCIAL RESULTS BY BUSINESS SEGMENT

(€ thousands)	**Advertising**		**Publishing**		**Search Engine (Il Trovatore)**		**Directory**	
Financial year ending 30 September	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Sales	134,826	127,037	48,993	25,704	154	164	-	-
Other operating revenues	3,060	1,924	792	595	10	7	-	-
Gross operating revenues	**137,886**	**128,961**	49,785	**26,299**	**164**	**171**	-	-
Agency discounts	(22,025)	(19,528)	-	-	-	-	-	-
Inventory movements	-	-	(124)	(322)	-	-	-	-
Operating revenues	**115,861**	**109,433**	**49,661**	**25,977**	**164**	**171**	-	-
Cost of sales	(99,278)	(93,617)	(39,456)	(19,324)	(249)	(272)	(86)	-
Personnel costs	(4,243)	(3,949)	(7,289)	(5,436)	-	-	-	-
Gross operating profit (EBITDA)	**12,340**	**11,867**	**2,916**	**1,217**	**(85)**	**(101)**	**(86)**	-
Depreciation and provision charges	(7,799)	(6,227)	(1,267)	(1,543)	(24)	(25)	(18)	-
Operating profit (EBIT)	**4,541**	**5,640**	**1,649**	**(326)**	**(109)**	**(126)**	**(105)**	-
Net finance income/(expenses)	2,519	2,979	221	217	(6)	(1)	6	-
Profit from ordinary activities	**7,060**	**8,619**	**1,870**	**(109)**	**(115)**	**(127)**	**(99)**	-
Net exceptional income/(expenses)	(153)	(1,134)	(1)	(140)	(20)	(7)	-	-
Profit before tax	**6,907**	**7,485**	1,869	**(249)**	**(135)**	**(134)**	**(99)**	-
Income tax	(2,579)	(2,182)	677	94	(2)	-	-	-
Minority interest	-	-	-	-	**26**	27	**40**	-
Net profit/(loss)	**4,328**	**5,303**	**2,546**	**(155)**	**(110)**	**(107)**	**(59)**	-

BOARD OF AUDITORS' REPORT

(pursuant to Art. 153, Legislative Decree 58/'98 and Art. 2429, subsection 3 of the Italian Civil Code)

Milan, Italy **28 December 2004**

Dear Shareholders,

During the course of the financial year ended 30 September 2004, we carried out the supervisory role provided for under Article 2429 of the Italian Civil Code and Article 149 of Legislative Decree Nº 58 of 24 February 1998. The code of practice recommended by the National Accounting and Auditing Board was followed at all times. In the current report we complied with the principles established by the Consob (National Stock Exchange Supervisory Commission) in memo Nº1025564 of 6 April 2001.
Our work was carried out in observance of the law, the company charter and company bylaws, and in accordance with best practice.

We attended seven meetings of the Board of Directors and the Shareholders' Meetings. We also obtained information from the Directors, at appropriate intervals, on the activities undertaken by the Company and the major business and financial operations carried out by the Company, subsidiaries and related parties. We also ascertained that the decisions made and actions taken were in accordance with the law and Company charter, and were for the economic benefit of the Company.

Pursuant to our mandate, we also examined the organisational structure of the Company, its compliance with corporate governance practice best principles and the proper execution of instructions given to subsidiaries. This was done through direct observation, the collection of information from those responsible for organisational tasks and meetings with the audit firm, which allowed for reciprocal exchanges of relevant data and information.

Pursuant to our mandate, we oversaw the implementation of a Corporate Governance principles code of conduct within the Company organisation.

We examined and evaluated the appropriateness of the internal control system. We also examined the administrative and accounting system, and its reliability to correctly represent management data, through information obtained from those responsible for the respective functions, the examination of Company documentation and the analysis of the results of work carried out by the Statutory Auditors.

We reviewed the work of the Statutory Auditors regarding the fairness of the Company's book of accounts as well as the work of management in order to establish that the financial year's reports were prepared in accordance with the law.

Pursuant to our mandate, we oversaw the introduction of the process of adjustment in compliance with Legislative Decree No. 6 of 17 January 2003, on company law reform.

We verified the observance of the regulations regarding the preparation and layout of the financial statements and the management report, via direct checks and information gathered by the Statutory Auditors.

In particular, in relation to the financial statements presented to you, we certify that:

- The Directors' Report is in compliance with all current regulations, is consistent with the decisions of the Board of Directors and the financial statement results for the year, and presents a detailed and comprehensive picture of the company's activities.
- The parent company and consolidated financial statements have been prepared in accordance with the framework and structures set out in the relevant regulations. The results are consistent with the facts and information at our disposal. The Statutory Auditor, Deloitte & Touche SpA, at the concluding stage of their examination, has informed us that their reports have been prepared and that both sets of financial statements are prepared in compliance with the law. The Statutory Auditors also informed us that their Reports do not contain any observations or qualifications.

In order to discharge our information mandate, we also certify that:

VII. The Company undertook to purchase treasury shares, in accordance with the decision made at the Shareholders' Meeting of 17 December 2003.

VIII. No unusual activities were undertaken within the Group or with any related parties. Transactions with Group companies and associated companies all related to the provision of services and all were carried out at normal 'arm's length' market prices. These activities were all carried out in accordance with the best interests of the Company.

IX. During February 2004 a declaration was received from a shareholder pursuant to Art. 2408. Following the appropriate examination, the Board of Auditors prepared a report and presented its conclusions to the Shareholders' Meeting of 20 April 2004. No declarations and/or statements under Art. 2409 of the Italian Civil Code have been sent on behalf of the members.

X. The activities carried out by the Company are in accordance with the law and its charter. No reckless or risky operations were carried out, nor any which presented a conflict of interest, conflicted with decisions of the Shareholders' Meeting or compromised the integrity of the company;

XI. The internal information system provides an adequate flow of information from subsidiaries, so as to allow for the discharge of legal duties of communication with regard to public information;

XII. No opinions of any kind were released;

XIII. The Company did not assign duties to the Statutory Auditor other than those stipulated during the last financial year with regard to the implementation of the new information system;

XIV. The Company complied with the code of self governance issued by the Committee for Corporate Governance of listed companies.

XV. The Board of Auditors attended seven meetings of the Board of Directors and five meetings of the Internal Controls Committee. The Board of Auditors met six times.

In conclusion, we can confirm that in the course of the supervisory role described above, no omission, censurable facts or irregularities, which could require the involvement of the authorities or other regulatory bodies came to our attention.

For this reason, we recommend the approval of the financial statements at 30 September 2004 as proposed by the Board of Directors and the proposal, formulated by the Board, regarding the distribution of the 2003-2004 financial year cash dividend.

The Board of Auditors

Mauro Sala -Marco Baccani – Enrico P. Muscato

STATUTORY AUDITOR'S REPORT

(pursuant to Article 156, Legislative Decree 58/'98 of the Italian Civil Code)

Milan, Italy **7 January 2005**

Dear Shareholders,

1. We have carried out the audit of the Cairo Communication Group consolidated financial statements as at 30 September 2004. The Board of Directors is responsible for the preparation of the consolidated financial statements. Our role is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with accepted professional standards in Italy. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. 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 the significant estimates made by management, as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.
   Please refer to our report of 27 November 2003, with regards to our opinion on the comparative previous year statements, in accordance with the law.

3. In our opinion, the consolidated financial statements of Cairo Communication SpA and its subsidiaries at 30 September 2004 prepared in accordance with generally accepted accounting principles in Italy, give a true and fair view of the consolidated financial position, assets and liabilities, and net profit for the financial year.

4. In order to fully comprehend the financial statements, the following information should be taken into account. A more detailed description can be found in the Directors Report and the notes to the financial statements.

In December 2003, the Group's Cairo TV subsidiary, fully merged into the parent company since June 2004, entered into arbitration proceedings regarding its right of execution of a contract it signed with Tele+ in May 1998. This contract had awarded it the exclusive right to sell advertising time on Tele+ channels which Sky Italia Srl took over when it acquired the Tele+ Group of companies. Cairo TV is also seeking a restraining order in relation to Sky Italia Srl regarding the violation of this exclusive contract, and damages for the non-fulfilment of the contract by Sky Italia Srl.

Sky Italia is contesting these claims through the Board of Arbitrators, denying having entered into the contract, which they seek to void pursuant to Cairo TV's alleged failure to discharge its responsibilities. Arbitration is ongoing. The Board of Arbitrators has taken into account matters relating to certain exceptions, regarding process and merit, raised by Sky (including the matter of assumption of contract) and written defence statements are currently being filed.

The aforementioned contract, suspended since 1 July 2004, generated € 36 million in revenue during the October 2003 – June 2004 period (€ 7.2 million, net of advertising agency discounts and advertising time fees), which represents over 19% of Group's € 188 million in sales for the 2003-2004 financial year.

As notified in June 2004, Tele+ has now undertaken court proceedings against Cairo TV SpA, nominating Prof. Vittorio Colesanti as arbitrator, requesting that the contract (which it deems to have made under its own name, and not representing the Tele+ operating companies) be dissolved, due to breach of the contract on the part of Cairo TV (these are the same claims made by Sky Italia in the aforementioned arbitration, which were never raised by Tele+ before Sky's arrival and the beginning of the related arbitration). They are also seeking damages from Cairo TV. Cairo Communication, which incorporates the operations of Cairo TV, has announced its intention to request that Tele+ claims be dismissed as totally groundless and has announced its intention to seek compensation from Tele+. The Board of Arbitrators held a hearing on 28 September 2004. The Board are expected to fix the terms by which written defence statements may be lodged.

The Board of Directors feels that the outcome of the arbitration process will have no significant impact on the Group's consolidated accounts at 30 September 2004.

DELOITTE & TOUCHE SpA

Piergiovanni Pasquarelli