CAIRO COMMUNICATION

Draft Annual Report as at 31 December 2010

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

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

Governance

Board of Directors

Dott. **Urbano Cairo***	Chairman
Dott. **Uberto Fornara**	Chief Executive Officer
Dott. **Roberto Cairo**	Director
Avv. **Marco Janni**	Director
Avv. **Antonio Magnocavallo**	Director
Dott. **Marco Pompignoli**	Director
Dott. **Roberto Rezzonico**	Director

Audit Committee (coincides with the Related Party Committee)

Dott. **Roberto Rezzonico**	Director
Avv. **Marco Janni**	Director
Avv. **Antonio Magnocavallo**	Director

Compensation Committee

Dott. **Roberto Rezzonico**	Director
Avv. **Marco Janni**	Director
Avv. **Antonio Magnocavallo**	Director

Board of Auditors

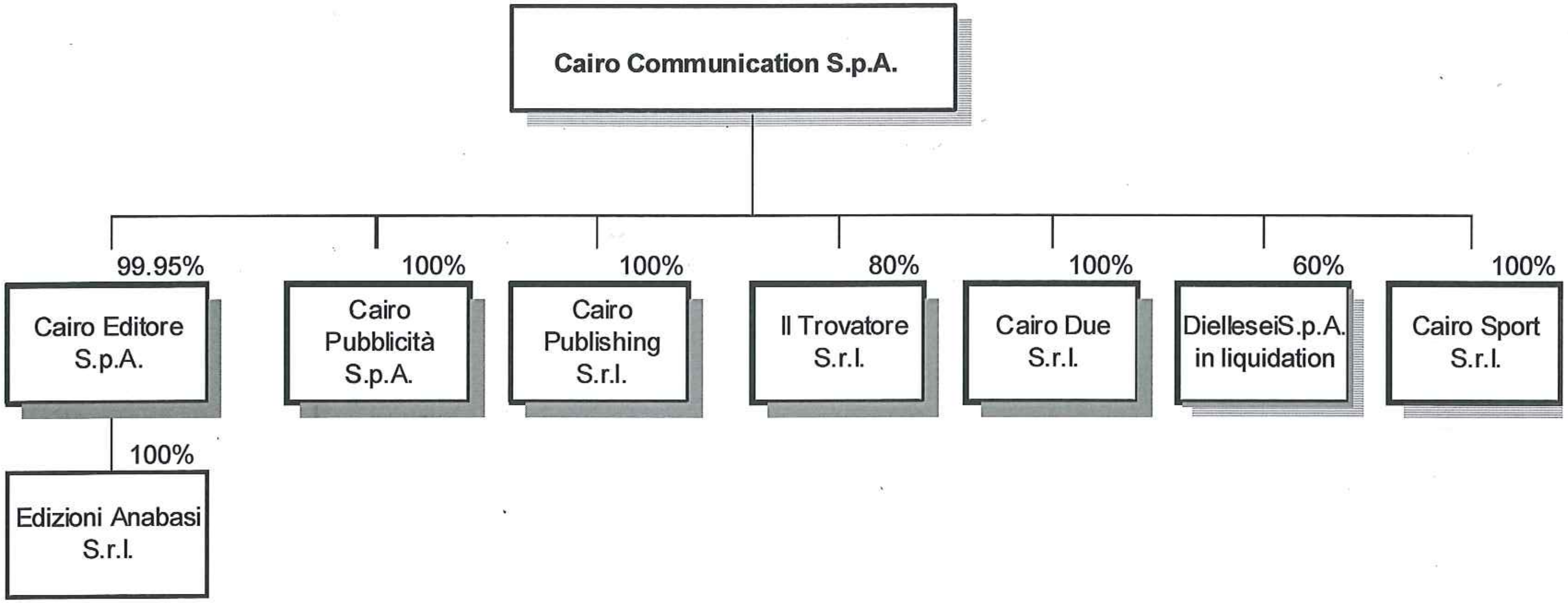
Dott. **Mauro Sala**	Chairman
Dott. **Marco Moroni**	Statutory auditor
Dott.ssa **Maria Pia Maspes**	Statutory auditor
Dott. **Mario Danti**	Alternate auditor
Dott. **Ferdinando Ramponi**	Alternate auditor

Audit Firm

Deloitte & Touche S.p.A.

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

The Group as at 31 December 2010



DIRECTORS' REPORT ON OPERATIONS

Parent company and consolidated financial statements as at 31 December 2010

Dear Shareholders,

the Parent Company financial statements and the consolidated financial statements as at 31 December 2010, submitted for your approval, show, respectively, a net profit of Euro 17,899 thousand and a consolidated net profit – Group share – of Euro 20,729 thousand.

In 2010, the Cairo Communication Group continued to operate as a publisher of magazines and books (Cairo Editore/Editoriale Giorgio Mondadori and Cairo Publishing), as a multimedia advertising broker (Cairo Pubblicità) for the sale of advertising space on TV, in print media, on the Internet and in stadiums, and as operator of Internet sites (Il Trovatore).

The year 2010 continued to suffer short- and medium-term economic uncertainty, despite signs of recovery, particularly in the TV advertising market.

According to *AC Nielsen* data, advertising investments in Italy amounted to approximately Euro 8.6 billion in 2010, up 3.8% versus 2009. Breakdown by media shows that:

- the magazine advertising market dropped by 5.4% versus 2009, when it had slid in that same period by 28.7% versus 2008,
- the TV advertising market, instead, progressed by 5.4% versus 2009, when it had fallen by 10.2% versus 2008.

Against this backdrop, in 2010 current operating results of the Cairo Communication Group - net of non-recurring arbitration income - surged versus the same period last year, with gross operating profit (EBITDA) of approximately Euro 30 million (+31.6%) and operating profit (EBIT) of approximately Euro 26.3 million (+38.3%), with the pace of results picking up during the year.

In order to fully appreciate the results achieved by the Cairo Communication Group in 2010, one should consider that in 2009 - the actual comparison period - Cairo's EBITDA had ended in line with the figure reported in 2008, despite operating in a tough publishing market, amidst an almost general decline in profits hitting the market players.

Looking at each business segment in 2010:

- for **publishing**, gross operating profit (EBITDA) and operating profit (EBIT) were up 32% and 34% respectively, reaching Euro 18.3 million and Euro 16.8 million versus the same period last year (Euro 13.9 million and Euro 12.6 million respectively in 2009), despite the lower number of issues of the two weeklies “Dipiù TV” and “TV Mia” versus 2009 (52 instead of 53), with a drop of approximately Euro 0.2 million in profits, and higher advertising costs (approximately Euro 0.9 million);
- for **advertising**, gross operating profit (EBITDA) and operating profit (EBIT) from current operations - netted against non-recurring arbitration income - increased by 31.1% and 46.2%, reaching Euro 11.7 million and Euro 9.4 million versus the same period of 2009 (Euro 8.9 million and Euro 6.4 million respectively in 2009), attributable mainly to the increase in TV advertising revenues (+18.9% overall). Advertising sales on La7, approximately Euro 126.4 million, were up 4.6% versus 2009 and greatly exceeded the agreed minimum annual revenue target (Euro 120 million). Starting from September 2010, La7 audience prime time and all-day figures shot up (average all-day share in the September-December four-month period of 2010 of 3.44%, up 15.8% versus the same period of 2009). With the appointment of Enrico Mentana as new editor, the 8 PM newscast’s share in 2010 peaked to 9% (8.17% average share in the September-December four-month period of 2010, versus the 2.26% in the same period of 2009) and recently shot above 10%, gaining widespread attention across the media, with benefits trickling down to the top news and in-depth programmes produced by the channel, “Omnibus”, “L’infedele”, “Le invasioni barbariche” and”Otto e mezzo” in particular, whose audience figures leapt above 5% (5.37% average share in the September-December four-month period of 2010 versus the 3.29% of the same period of 2009). These shares were confirmed in January and February 2011, suggesting that the pace can be maintained in the upcoming months, impacting positively on advertising revenues.

In 2010, under the arbitration award issued on 27 January 2010, the 10-year advertising concession contract signed in May 1998 between Cairo TV and Telepiù S.r.l. was terminated through act and default of Telepiù. Telepiù was ordered to pay damages to Cairo Communication (as acquirer of Cairo TV) for the amount of Euro 11.7 million (the award also acknowledged payment of Euro 1 million for damages to Telepiù), as well as approximately Euro 0.8 million for defence and arbitration costs.

Including non-recurring income from the Cairo-Telepiù arbitration, consolidated gross operating profit (EBITDA) and operating profit (EBIT) amounted, respectively, to approximately Euro 36.8

million (Euro 22.8 million in 2009) and approximately 33.1 million (Euro 19 million in 2009). Group share in net profit came to approximately Euro 20.7 million.

MANAGEMENT PERFORMANCE

Cairo Communication Group – Consolidated figures

Consolidated income statement

The main **consolidated income statement figures** of 2010 can be compared as follows with those of 2009:

(€ thousands)	31/12/2010			31/12/2009
	Current operations	Non-recurring income	Total	
Sales	271,456	-	271,456	251,260
Advertising agency discounts	(27,896)	-	(27,896)	(24,602)
Net operating revenues	**243,560**	**-**	**243,560**	**226,658**
Inventory movements	(35)	-	(35)	(165)
Other operating revenues	2,871	-	2,871	1,654
Non-recurring income from Telepiù arbitration	-	6,792	6,792	-
Operating revenues	**246,396**	**6,792**	**253,188**	**228,147**
Cost of sales	(194,610)	-	(194,610)	(183,649)
Personnel costs	(21,753)	-	(21,753)	(21,684)
Gross operating profit (EBITDA)	**30,033**	**6,792**	**36,825**	**22,814**
Amortization, depreciation, write-downs and provisions	(3,738)	-	(3,738)	(3,795)
Operating profit	**26,295**	**6,792**	**33,087**	**19,019**
Net financial income	350	-	350	547
Pre-tax profit	**26,645**	**6,792**	**33,437**	**19,566**
Income tax	(9,518)	(3,122)	(12,640)	(7,401)
Minorities	(1)	-	(1)	(4)
Group share in net profit from continuing operations	**17,126**	**3,670**	**20,796**	**12,161**
Net profit/(loss) from discontinued operations	(67)	-	(67)	(127)
Minorities' share in loss from discontinued operations	-	-	-	-
Group share in net profit/(loss) from discontinued operations	**(67)**	**-**	**(67)**	**(127)**
Group net profit	**17,059**	**3,670**	**20,729**	**12,034**

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

In **financial year 2010**, looking at current operations:

- <u>consolidated gross revenues</u> were approximately Euro 274.3 million (Euro 252.9 million in 2009), which comprise operating revenues of Euro 271.4 million and other revenues of Euro 2.9 million, up 8.5% overall versus 2009,
- consolidated gross operating profit (EBITDA), amounting to approximately Euro 30 million, was up 31.6% versus 2009 (Euro 22.8 million),
- <u>operating profit</u> (EBIT) amounted to approximately Euro 26.3 million, rising by 38.3% versus 2009 (Euro 19 million).

The outcome of the arbitration benefited the consolidated income statement of the year, netted against those assets related to the Telepiù-Cairo TV advertising concession contract entered in the consolidated financial statements as at 31 December 2009, deriving from the advertising concession contract between Telepiù and Cairo, specifically:

- other receivables of approximately Euro 1.6 million, referable to the Telepiu's share of loss accrued on receivables from advertising clients, under the advertising concession contract (which provided for a share of loss to be debited to Telepiù) the amount of which was absorbed in the damages liquidated to Cairo as a result of the arbitration,
- the residual consolidation difference, equal to Euro 3.1 million, net of pertaining amortization accumulated as at 30 June 2004, as the difference between purchase price in 1998 of the whole corporate capital of Cairo TV and its equity upon date of acquisition, attributed in the consolidated accounts to the exclusive ten-year advertising concession contract on the Telepiù analogue and digital channels at that times, and shown as intangible assets under "*concessions, licenses and trademarks*"; recognition in the income statement of the equivalent amount of such consolidation difference did not impact on tax for the period as it had no tax and financial relevance.

In August 2010, Cairo Communication filed a new arbitration against Telepiù to assess a breach by Telepiù of the contract under which it had transferred to the Company the entire share capital of Telepiù Pubblicità S.r.l. (renamed Cairo TV S.p.A.), as a result of the termination of the concession contract through act and default of Telepiù, and for the damages suffered by Cairo Communication as acquirer of Cairo TV. The Board of Arbitrators was formed on 5 November 2010 and is composed by prof. avv. Gerardo Broggini (president), prof. avv. Francesco Benatti (arbitrator appointed by the Company), and prof. avv. Vincenzo Roppo (arbitrator appointed by Telepiù). The meeting on 27 January set the terms for the briefs, with the final hearing scheduled on 11 May 2011.

Including non-recurring income, consolidated gross operating profit (EBITDA) amounted to approximately Euro 36.8 million (Euro 22.8 million in 2009), while operating profit (EBIT) came to roughly Euro 33.1 million (Euro 19 million in 2009).

The variation in financial income is mainly due to the drop in interest rates versus 2009 (a Euribor one-month rate of 0.57% in 2010 versus 0.93% in 2009).

Net profit was approximately Euro 20.7 million (Euro 12 million in 2009). Even net of non-recurring arbitration income, net profit from current operations, amounting to Euro 17.1 million, advanced versus the same period last year (+ 41.8%).

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

(€ thousands)	31/12/2010	31/12/2009
Consolidated statement of comprehensive income		
Group share in net profit	**20,729**	**12,034**
Loss from valuation of investments available for sale	(1,775)	(349)
Total statement of Group comprehensive income	**18,954**	**11,685**

Loss from valuation of investments available for sale refers to the write-down of the book value of the investment in the listed company Dmail Group (765,000 shares, or 10% of the share capital) measured at fair value, equal to the share price as at 31 December 2010 (Euro 2.92 per share), with a corresponding entry to net equity for a total of Euro 1,775 thousand in the year (Euro 499 thousand in the three months).

As for the preparation of the consolidated financial statements as at 31 December 2009, the Group's share in the net loss of Diellesei S.p.A. in liquidation is shown separately under "net profit/(loss) from discontinued operations", and can be analyzed as follows:

(€ thousands)	31/12/2010	31/12/2009
Other operating revenues	121	79
Operating revenues	**121**	**79**
Cost of sales	(107)	(32)
Gross operating profit (EBITDA)	**14**	**47**
Amortization, depreciation, write-downs and provisions	(100)	(53)
Operating profit (EBIT)	**(86)**	**(6)**
Net financial income	1	(165)
Pre-tax profit	**(85)**	**(171)**
Income tax	18	44
Minorities	-	-
Group share in net profit/(loss) from discontinued operations	**(67)**	**(127)**

The Group’s economic performance can be read better by analyzing the 2010 results by **core business** (publishing, advertising and Il Trovatore) versus those of 2009:

2010 (€ thousands)	**Publishing**	**Advertising** Current operations	**Advertising** Non-recurring items	**Trovato-re**	**Unallo-cated operations**	**Intra group**	**Total**
Sales	101,203	197,227	-	344	-	(27,318)	271,456
Advertising agency discounts	-	(27,896)	-	-	-		(27,896)
Net operating revenues	**101,203**	**169,331**	**0**	**344**	**0**	**(27,318)**	**243,560**
Inventory movements	(35)	-	-	-	-	-	(35)
Other operating revenues	1,958	913	-	-	-	-	2,871
Non-recurring arbitration	-	-	6,792	-	-	-	6,792
Operating revenues	**103,126**	**170,244**	**6,792**	**344**	**0**	**(27,318)**	**253,188**
Cost of sales	(68,628)	(153,041)	-	(259)	-	27,318	(194,610)
Personnel costs	(16,194)	(5,526)	-	(33)	-	-	(21,753)
Gross operating profit (EBITDA)	**18,304**	**11,677**	**6,792**	**52**	**0**	**0**	**36,825**
Amortization, depreciation, write-downs and provisions	(1,489)	(2,247)	-	(2)	-	-	(3,738)
Operating profit (EBIT)	**16,815**	**9,430**	**6,792**	**50**	**0**	**0**	**33,087**
Investment income	-	-	-	-	-	-	-
Net financial income	61	290	-	(1)	-	-	350
Pre-tax profit	**16,876**	**9,720**	**6,792**	**49**	**0**	**0**	**33,437**
Income tax	(5,701)	(3,774)	(3,122)	(43)	-	-	(12,640)
Minorities	-	-	-	(1)	-	-	(1)
Group share in profit from continuing operations	**11,175**	**5,946**	**3,670**	**5**	**0**	**0**	**20,796**
Net profit/(loss) from discontinued operations	-	-	-	-	(67)	-	(67)
Group net profit for the year	**11,175**	**5,946**	**3,670**	**5**	**(67)**	**0**	**20,729**

2009 (€ thousands)	**Publishing**	**Advertising** Current operations	**Advertising** Non-recurring items	**Trovato-re**	**Unalloc-ated operations**	**Intra-group**	**Total**
Sales	104,158	175,264	-	360	-	(28,522)	251,260
Advertising agency discounts	-	(24,602)	-	-	-	-	(24,602)
Net operating revenues	**104,158**	**150,662**	**0**	**360**	**0**	**(28,522)**	**226,658**
Inventory movements	(165)	-	-	-	-	-	(165)
Other operating revenues	1,240	414	-	-	-	-	1,654
Non-recurring arbitration income	-	-	-	-	-	-	-
Operating revenues	**105,233**	**151,076**	**0**	**360**	**0**	**(28,522)**	**228,147**
Cost of sales	(74,469)	(137,408)	-	(294)	-	28,522	(183,649)
Personnel costs	(16,894)	(4,759)	-	(31)	-	-	(21,684)
Gross operating profit (EBITDA)	**13,870**	**8,909**	**0**	**35**	**0**	**0**	**22,814**
Amortization, depreciation, write-downs and provisions	(1,319)	(2,459)	-	(17)	-	-	(3,795)
Operating profit (EBIT)	**12,551**	**6,450**	**0**	**18**	**0**	**0**	**19,019**
Investment income	-	-	-	-	(79)	-	(79)
Net financial income	47	579	-	-	-	-	626
Pre-tax profit	**12,598**	**7,029**	**0**	**18**	**(79)**	**0**	**19,566**
Income tax	(4,710)	(2,673)	-	(18)	-	-	(7,401)
Minorities	-	-	-	(4)	-	-	(4)
Group share in profit from continuing operations	**7,888**	**4,356**	**0**	**(4)**	**(79)**	**0**	**12,161**
Net profit/(loss) from discontinued operations	-	-	-	-	(127)	-	(127)
Group net profit for the year	**7,888**	**4,356**	**0**	**(4)**	**(206)**	**0**	**12,034**

Gross operating revenues in 2010, split up by core business (publishing, advertising and Il Trovatore) can be analyzed and compared with the figures in 2009:

Gross revenues (€ thousands)			**31/12/2010**		
	Publishing	**Advertising**	**Trovatore**	**Intra-group eliminations**	**Total**
Magazine over-the-counter sales	70,978	-	-	-	70,978
Print media advertising	26,675	38,918	-	(26,501)	39,092
TV advertising	-	155,058	-	-	155,058
Stadium signage and space sales	-	1,571	-	-	1,571
Internet advertising	-	1,092	28	-	1,120
Subscriptions	2,883	-	-	-	2,883
Books and catalogues	1,970	-	-	-	1,970
Other revenues	-	588	316	(817)	87
VAT relating to publications	(1,303)	-	-	-	(1,303)
Total gross operating revenues	**101,203**	**197,227**	**344**	**(27,318)**	**271,456**
Other revenues	1,958	913	-	-	2,871
Operating revenues	**103,161**	**198,140**	**344**	**(27,318)**	**274,327**
Non-recurring arbitration income	-	6,792	-	-	6,792
Total revenues	**103,161**	**204,932**	**344**	**(27,318)**	**281,119**

Gross revenues (€ thousands)			**31/12/2009**		
	Publishing	**Advertising**	**Trovatore**	**Intragroup eliminations**	**Total**
Magazine over-the-counter sales	72,438	-	-		72,438
Print media advertising	27,836	40,571	-	(27,685)	40,722
TV advertising	-	130,381	-	-	130,381
Stadium signage and space sales	-	2,813	-	-	2,813
Internet advertising	-	950	24	-	974
Subscriptions	2,953	-	-	-	2,953
Books and catalogues	2,264	-	-	-	2,264
Other revenues	-	549	336	(837)	48
VAT relating to publications	(1,333)	-	-	-	(1,333)
Total gross operating revenues	**104,158**	**175,264**	**360**	**(28,522)**	**251,260**
Other revenues	1,240	414	-	-	1,654
Operating revenues	**105,398**	**175,678**	**360**	**(28,522)**	**252,914**
Non-recurring arbitration income	-	-	-	-	-
Total revenues	**105,398**	**175,678**	**360**	**(28,522)**	**252,914**

The main **consolidated balance sheet figures** as at 31 December 2010 can be compared versus those as at 31 December 2009:

(€ thousands)	**31/12/2010**	**31/12/2009**
Balance sheet		
Property, plant and equipment	2,656	2,812
Intangible assets	9,552	13,101
Investments	2,319	4,113
Prepaid tax	4,480	4,652
Net current assets	(1,147)	(3,544)
Total assets	**17,860**	**21,134**
Non-current borrowings and provisions	6,015	5,752
(Net financial assets)/Net debt	(58,339)	(51,364)
Equity	70,184	66,747
Minorities	0	(1)
Total equity and liabilities	**17,860**	**21,134**

The Shareholders' Meeting on 28 April 2010 approved payment of a dividend of 0.2 Euro per share, including tax, with detachment (coupon n. 2 post split) on 10 May 2010, for a total of Euro 15.5 million.

In 2010, as part of the share buyback plan, no treasury shares were purchased or sold. As at 31 December 2010, Cairo Communication held n. 771,326 treasury shares, or 0.985% of the share capital, subject to the provisions of art. 2357-ter of the Civil Code.

Investments refer mainly (Euro 2.2 million) to 765,000 shares, or 10% of the share capital, in the listed company Dmail Group S.p.A., measured as at 31 December 2010 at fair value (a share price of Euro 2.92 as at 31 December 2010).

The consolidated **net financial position** as at 31 December 2010, compared with the position as at 31 December 2009, is summarized as follows:

(€ thousands)	**31/12/2010**	**31/12/2009**	**Change**
Cash and cash equivalents	58,260	43,867	14,393
Escrow account held with Telepiù	-	7,543	(7,543)
Short-term investments	79	79	-
Bank overdrafts	-	(125)	125
Bank loans	-	-	-
Total	**58,339**	**51,364**	**6,975**

As at 31 December 2009, the consolidated net financial position included cash deposited in a current account jointly held with Telepiù S.r.l. (Euro 7.5 million including accrued interest), subject - according to the terms agreed by the parties when the account was opened - to the arbitration award between Cairo Communication and Telepiù. Following the award issued on 27 January 2010, the deposit was released in favor of Cairo Communication. Telepiù offsets it entirely against the damages liquidated by the Arbitrators on grounds challenged by Cairo Communication in court in July 2010.

To analyze the major financial indicators, the asset structure as at 31 December 2009 can be examined using a reclassified statement showing increasing liquidity/settlement:

(€ thousands)	31/12/2010	31/12/2009
Non-current assets		
Property, plant and equipment and intangible assets	12,208	15,913
Investments	2,319	4,113
Prepaid tax	4,482	4,652
Total non-current assets	**19,009**	**24,678**
Current assets		
Inventory	2,952	4,311
Trade receivables (deferred liquidity)	93,942	89,244
Other deferred cash	14,934	14,843
Total operating working capital	**111,828**	**108,398**
Liquid assets	58,260	43,867
Total current assets	**170,088**	**152,265**
Capital invested	**189,097**	**176,943**
Group equity	**70,184**	**66,746**
Consolidated liabilities		
Provision for retirement benefit and staff severance	6,015	5,752
Non-current bank loans	-	-
Total consolidated liabilities	**6,015**	**5,752**
Current liabilities		
Current operating liabilities	112,898	104,319
Current bank loans	-	126
Total current liabilities	**112,898**	**104,445**
Financing capital	**189,097**	**176,943**
Net profit	20,729	12,034
Operating profit (EBIT)	33,087	19,019
Sales	243,560	226,658

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

(€ thousands)	Description	31/12/2010	31/12/2009
Solvency indicators			
Availability margin	Current assets-current liabilities	57,192	47,820
Availability ratio	Current assets /current liabilities	1.51	1.46
Treasury margin	(Def. cash + liq. assets)-current liabilities	54,240	43,509
Treasury ratio	(Def. cash + liq. assets)-current liabilities	1.48	1.42
Non-current asset financing indicators			
Primary structure margin	Equity - non-current assets	51,177	42,068
Primary structure ratio	Equity - non-current assets	3.7	2.7
Secondary structure margin	(Equity+liab.) – non-current assets	57,192	47,820
Secondary structure ratio	(Equity+liab.)/ non-current assets	4.0	2.9
Financing structure indicators			
Overall debt ratio	(Long-term + current liab.)/Equity	1.7	1.7
Financing debt ratio	Borrowings /Equity	0.0	0.0
Current operating assets - current operating liabilities		(1,068)	4,079
Profitability indicators			
ROE	Net profit /Equity	29.5%	18.0%
ROE current operations	Net profit curr. op./Equity	24.3%	18.0%
ROI	Operating profit / (Inv. op. capital – op. liabilities)	43.4%	26.2%
ROI current operations	Operating profit current operations/ (Inv. op. capital – op. liabilities)	34.5%	26.2%
Other indicators			
Receivables turnover		141	144

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

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

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

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

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

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

Weeklies	**Dipiu'**	**Diva & donna**	**Dipiu' TV**	**Dipiu' TV Cucina**	**TV Mia**
ADS November 2010	717,832	202,223	468,767	405,423	174,403
ADS November 2009	742,465	187,317	496,938	327,785	175,331
	-3.32%	*7.96%*	*-5.67%*	*23.69%*	*0.53%*

Monthlies	**For Men Magazine**	**Natural Style**	**Bell'Italia**	**Bell'Europa**	**In Viaggio**	**Airone**	**Gardenia**
ADS November 2010	99,623	88,363	64,709	34,012	37,886	77,911	56,970
ADS November 2009	111,812	100,137	67,575	40,079	45,358	89,444	56,476
	-10.9%	*-11.76%*	*-4.25%*	*-15.14%*	*-16.47%*	*-12.89%*	*0.87%*

These figures show the excellent performance by circulation, despite the tough market in 2010. Results achieved despite the increase in some cover prices. In February 2010, prices increased for "Airone" (0.40 Euro to 1.9 Euro) and "Gardenia" (0.20 Euro to 3.9 Euro), and in March, for "In Viaggio" (1 Euro to 2.9 Euro). Thanks to these increases, circulation revenues of the monthlies, particularly of Editoriale Giorgio Mondadori, were basically in line with those of 2009.

Cairo Communication S.p.A. - Parent Company performance

The main **Parent Company income statement figures** for 2010 can be compared as follows versus those of 2009:

		31/12/2010		31/12/2009
(€ thousands)	Current operations	Non-recurring income	Total	
Sales	137,472	-	137,472	131,584
Advertising agency discounts	-	-	-	-
Other operating revenues	528	-	528	217
Non-recurring arbitration income	-	9,944	9,944	-
Operating revenues	**138,000**	**9,944**	**147,944**	**131,801**
Cost of sales	(129,470)	-	(129,470)	(123,990)
Personnel costs	(2,469)	-	(2,469)	(2,254)
Gross operating profit (EBITDA)	**6,061**	**9,944**	**16,005**	**5,557**
Amortization, depreciation, write-downs and provisions	(222)	-	(222)	(369)
Operating profit (EBIT)	**5,839**	**9,944**	**15,783**	**5,188**
Net financial income	237	-	237	498
Net investment income (loss)	7,462	-	7,462	8,422
Pre-tax profit	**13,538**	**9,944**	**23,482**	**14,108**
Income tax	(2,394)	(3,122)	(5,516)	(2,040)
Net profit from continuing operations	**11,144**	**6,822**	**17,966**	**12,068**
Net profit/(loss) from discontinued operations	(67)	-	(67)	(128)
Net profit	**11,077**	**6,822**	**17,899**	**11,940**

As for consolidated figures, in the schedules of the income statement of the Parent Company in this directors' report on management, income from the Cairo-Telepiù arbitration is shown separately, owing to its non-recurring nature and size.

In **2010,** looking at current operations:

- gross revenues were approximately Euro 138 million (Euro 131.8 million in 2009), which comprise operating revenues of Euro 137.5 million and other revenues of Euro 0.5 million, up 4.7% overall versus 2009,
- gross operating profit (EBITDA) of the Parent Company, amounting to approximately Euro 6.1 million, was up 9% versus 2009 (Euro 5.6 million),
- operating profit (EBIT) came to approximately Euro 5.8 million, rising by 12.5% versus 2009 (Euro 5.2 million).

Regarding the income statement of the Parent Company, the outcome of the arbitration generated positive results in the Parent Company income statement for the year, net of those assets entered in the financial statements as at 31 December 2009 and related from the advertising contract between Telepiù and Cairo TV, other assets of approximately Euro 1.6 million, referable to the Telepiù's share of loss accrued on receivables from advetrising clients, under the advertising concession contract (which provided for a share of loss to be debited to Telepiù) the amount of which was absorbed in the damages liquidated to Cairo as a result of the arbitration.

Including non-recurring income, gross operating profit (EBITDA) was approximately Euro 16 million (Euro 5.6 million in 2009), while operating profit (EBIT) was approximately Euro 15.8 million (Euro 5.2 million in 2009).

The variation in financial income was mainly due to the drop in interest rates versus 2009 (a Euribor average of 0.57% in 2010 versus 0.93% in 2009).

"Investment income" mainly includes dividends received from subsidiaries Cairo Pubblicità, amounting to Euro 0.7 million (Euro 1.8 million in 2009) and Cairo Editore, amounting to Euro 6.8 million (Euro 6.7 million in 2009).

Net profit came to approximately Euro 17.9 million (Euro 11.9 million in 2009).

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

(€ thousands)	**31/12/2010**	**31/12/2009**
Statement of comprehensive income of Parent Company		
Net profit	**17,899**	**11,940**
Loss from valuation of investments available for sale	(1,775)	(428)
Total statement of comprehensive income	**16,124**	**11,512**

As mentioned for consolidated figures, loss from valuation of investments available for sale refers to the fair value measurement of the book value of the investment in the listed company Dmail Group (a share price of Euro 2.92 as at 31 December 2010).

The main **balance sheet figures** as at 31 December 2010 of Cairo Communication S.p.A. can be compared with the situation as at 31 December 2009:

(€ thousands)	31/12/2010	31/12/2009
Balance sheet		
Property, plant and equipment	352	446
Intangible assets	151	210
Investments	15,941	17,717
Other non-current assets	399	420
Net current assets	22,234	26,839
Total assets	**39,077**	**45,632**
Non-current borrowings and provisions for liabilities	837	714
(Net financial position)/Net borrowings	(32,742)	(25,454)
Net equity	70,982	70,372
Total equity and liabilities	**39,077**	**45,632**

As mentioned in the notes to the consolidated balance sheet, the Shareholders' Meeting of 28 April 2010 approved the distribution of a dividend of Euro 0.2 per share, including income tax, with detachment date (coupon n. 2 post-split) on 10 May 2010, for a total of Euro 15.5 million.

The **net financial position** of the Parent Company as at 31 December 2010, compared with the situation as at 31 December 2009, is summarized as follows:

(€ thousands)	31/12/2010	31/12/2009	Change
Cash and cash equivalents	32,663	17,832	14,831
Escrow account held with Telepiù	-	7,543	(7,543)
Marketable securities	79	79	-
Total	**32,742**	**25,454**	**7,288**

Statement of reconciliation of Parent Company equity and net profit and Group equity and net profit

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

(€ thousands)	Equity	Net profit
Financial statements of Cairo Communication S.p.A.	**70,982**	**17,899**
Elimination of the value of consolidated equity investments:		
Difference between book value of investments and their net equity value	11,742	
Share in subsidiaries' net profit net of investment write-downs		13,272
Allocation of excess consideration paid:		
Goodwill	7,230	
Greater values attributed to other assets		(3,152)
Elimination of intra-group profits net of income tax	(19,770)	178
Elimination of intra-group dividends		(7,467)
Consolidated financial statements of Cairo Communication	**70,184**	**20,730**

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

PUBLISHING

CAIRO EDITORE - CAIRO PUBLISHING

The results achieved by **Publishing** in 2010 can be analyzed as follows:

Publishing (€ thousands)	31 December 2010	31 December 2009
Sales	101,203	104,158
Advertising agency discounts	-	-
Net operating revenues	**101,203**	**104,158**
Other revenues	1,958	1,240
Inventory movements	(35)	(165)
Operating revenues	**103,126**	**105,233**
Cost of sales	(68,628)	(74,469)
Personnel costs	(16,194)	(16,894)
Gross operating profit (EBITDA)	**18,304**	**13,870**
Amortization, depreciation, write-downs and provisions	(1,489)	(1,319)
Operating profit (EBIT)	**16,815**	**12,551**
Investment income	-	-
Net financial income	61	47
Pre-tax profit	**16,876**	**12,598**
Income tax	(5,701)	(4,710)
Minorities	-	-
Group share in net profit from continuing operations	**11,175**	**7,888**
Net profit/(loss) from discontinued operations	-	-
Net profit for the year	**11,175**	**7,888**

Sales revenues from Group publications, amounting to Euro 71 million, were down 2% versus 2009 (Euro 72.4 million, up 2.8% versus Euro 70.5 million in 2008; revenues this year are higher than 2008), due to the lower amount of issues of the two weeklies “Dipiù TV” and “TV Mia” (52 instead of 53), causing a loss in revenues over the period of approximately Euro 0.4 million, and to the cut price of three issues of “Dipiù TV” (loss of approximately Euro 0.6 million) and of several issues (loss of approximately 0.1 million) of “Diva e Donna”, concurrent to its kick-start and appointment of the new editor-in-chief, Angelo Ascoli, replacing Silvana Giacobini at the end of her tenure. The kick-start, driven by a strong advertising campaign, has already generated good circulation results, with a roughly 35% increase in average copies sold between 4Q09 and 2010, taking the 49 issues after the launch into account.

Group gross advertising revenues, which reached Euro 38.1 million, were partly affected by the lower amount of issues of the two weeklies, shedding 3.8% (versus the -5.4% of the magazine advertising market in 2010, *ACNielsen*, but versus the -28.7%, *AC Nielsen*, of 2009). In 2009, Cairo magazine advertising revenues had slid by -23.6%, 5 percentage points less, however, than the general market.

Despite the lower amount of issues of the weeklies (with a loss of about Euro 0.2 million) and the higher advertising costs (approximately Euro 0.9 million), in 2010 gross operating profit (EBITDA) and operating profit (EBIT) in the publishing segment were up 32% and 34%, respectively, reaching Euro 18.3 million and Euro 16.8 million versus the same period last year (Euro 13.9 million and Euro 12.6 million, respectively, in 2009), thanks essentially to:

- the high quality of the Group’s publications, which helped maintain circulation and sales revenues;
- a series of cost-curbing measures, implemented starting from 2008 to increase the effectiveness and efficiency of production, publishing and distribution processes, which enabled the Group to cut costs versus the same period last year, mainly concerning:
    - cost of paper, thanks to the better purchase terms negotiated with providers for 2010 and, only to a smaller extent, to the rethinking of a number of technical features (paper weight and type) without affecting the high quality of the publications,
    - better economic terms versus 2009 for external print and binding work,
    - better economic terms versus 2009 for the distribution process,
    - optimization of bordereau costs (magazine editorial content purchased externally, such as photos, reports, etc.).

“Settimanale DIPIU”, Italy’s second best-selling magazine, with an average ADS circulation of 717,832, “DIPIU’ TV”, with an average ADS circulation of 468,767 copies, and “Diva e Donna”, with an average ADS circulation of 202,223 copies, all three in the twelve months from December 2009 to November 2010 confirmed the outstanding sales results achieved.

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

- cover prices of the weeklies are lower, some significantly lower (even half the price) than those of main competitors; this gap increases appeal and allows space for potential price increases, hence for increased profitability;
- sales are mostly at the newstands (95%), with a minimum incidence (about 2% on total publishing revenues, including advertising) of revenues generated by gadgets and collaterals, whose sales figures have collapsed in the publishing segment; the Group has opted to focus on the quality of its publications; in 2010, gross advertising revenues generated by the Group's publications accounted for 33% - an extremely low figure if compared with the revenue breakdown of other major publishing groups – while 67% was generated by direct sales and subscriptions, proof of the high editorial quality of publications;
- weekly magazines, which account for approximately 83% of the total publishing revenues, are sold as single copies and not bundled with other weeklies and/or dailies to bolster sales;
- the Group's four weekly magazines, given their "tender age", are less popular than their established rival counterparts, so they have potential to increase their appeal through advertising campaigns, product quality and consumer habits, with resulting benefits on amount of copies sold and on advertising sales.

Summary financial information from the draft financial statements as at 31 December 2010 of the subsidiaries is provided in the appendices to the notes to the Parent Company financial statements:

- in 2010, Cairo Editore generated revenues of approximately Euro 100.9 million, with gross operating profit (EBITDA) of Euro 18.2 million and operating profit (EBIT) of Euro 15.6 million (Euro 102.8 million, 13.7 million and 11.1 million in 2009, respectively),
- Cairo Publishing generated revenues of approximately Euro 2.3 million, with gross operating profit (EBITDA) of Euro 0.2 million and a negative operating profit of

(EBIT) of Euro 0.05 million (Euro 2.5 million, 0.2 million and 0.03 million in 2009, respectively).

The publishing segment also includes Edizioni Anabasi S.r.l., which is inactive.

ADVERTISING

In 2010, Cairo Communication acted as an advertising broker – with subsidiary Cairo Pubblicità **-** selling space in the print media for Cairo Editore ("For Men Magazine", "Natural Style", "Settimanale DIPIU'", "DIPIU' TV" and weekly supplements "Settimanale DIPIU' e DIPIU'TV Cucina" and "Settimanale DIPIU' e DIPIU'TV Stellare", "Diva e Donna" and "TV Mia"), the Editoriale Giorgio Mondadori division (Bell'Italia", "Bell'Europa", "In Viaggio", "Airone", "Gardenia", "Arte" and "Antiquariato") and for Editoriale Gensis ("Prima Comunicazione" and "Uomini e Comunicazione"), and for the sale of advertising space on TV for third parties TIMedia (La7 and La7d), Interactive Group (Sportitalia, Sportitalia 2 and Sportitalia 24), DahliaTV (Dahlia Calcio, Dahlia Sport, Dahlia Xtreme, Dahlia Explorer and Dahlia Eros) and Turner Broadcasting (Cartoon Network, Boomerang, CNN), on the Internet mainly for TIMedia (La7.it and La7.tv), DahliaTV (Dahliatv.it), Sportitalia (Sportitalia.it) and Turner Broadcasting (Cartoon Network.it, Cnn.com, and Cnnmoney.com) and for the sale of stadium signage and space at the "Olimpico" in Turin for Torino FC.

The results achieved by **Advertising** in 2010 can be analyzed as follows:

2010 (€ thousands)	**31/12/2010** **Current operations**	**Non-recurring items**	**Total**	**31/12/2009**
Sales	197,227	-	197,227	175,264
Advertising agency discounts	(27,896)	-	(27,896)	(24,602)
Net operating revenues	**169,331**	**0**	**169,331**	**150,662**
Inventory movements	-	-	-	-
Other revenues	913	-	913	414
Non-recurring arbitration income	-	6,792	**6,792**	-
Operating revenues	**170,244**	**6,792**	**177,036**	**151,076**
Cost of sales	(153,041)	-	(153,041)	(137,408)
Personnel costs	(5,526)	-	(5,526)	(4,759)
Gross operating profit (EBITDA)	**11,677**	**6,792**	**18,469**	**8,909**
Amortization, depreciation, write-downs and provisions	(2,247)	-	(2,247)	(2,459)
Operating profit (EBIT)	**9,430**	**6,792**	**16,222**	**6,450**
Investment income	-	-	-	-
Net financial income	290	-	290	579
Pre-tax profit	**9,720**	**6,792**	**16,512**	**7,029**
Income tax	(3,774)	(3,122)	(6,896)	(2,673)
Minorities	-	-	-	-
Group share in net profit from continuing operations	**5,946**	**3,670**	**9,616**	**4,356**
Net profit from discontinued operations	-	-	-	-
Net profit for the year	**5,946**	**3,670**	**9,616**	**4,356**

In 2010, in the advertising segment, gross operating profit (EBITDA) and operating profit (EBIT) from current operations – netted against non-recurring arbitration income – were up 31.1% and 46.2%, respectively versus 2009, reaching Euro 11.7 million and Euro 9.4 million (Euro 8.9 million and Euro 6.4 million, respectively, in 2009), thanks mainly to the rise in TV advertising revenues (+18.9% overall).

Specifically, in 2010 Cairo Pubblicità generated revenues of approximately Euro 197.2 million (Euro 175 million in 2009), with gross operating profit (EBITDA) of Euro 5.6 million (Euro 2.2 million in 2009) and operating profit (EBIT) of Euro 3.6 million (Euro 1.3 million in 2009).

Television

In 2010, TV advertising revenues (including La7, La7d, Sportitalia and Dahlia and theme channels Cartoon Network, Boomerang, and CNN), totaling Euro 155.1 million, were up 18.9% overall versus 2009.

In order to measure the performance of TV advertising revenues, one should consider that in 2009 - the actual comparison year - Cairo's revenues had already increased by 6.4% versus 2008 when the general TV advertising market had shed 10.2% (*AC Nielsen*).

Specifically, in 2010 advertising revenues on La7, amounting to approximately Euro 126.4 million, greatly exceeded the minimum annual contractual target of Euro 120 million, rising by 4.6% versus 2009, while advertising revenues on the unencrypted digital channel La7d, amounting to approximately Euro 6 million, confirmed the contractual target of 2010.

The good results of TV advertising revenues were achieved thanks also to the other new contracts signed at end 2009 and during 2010, specifically:

- the multi-year exclusive advertising concession contract on the digital and satellite Sportitalia, Sportitalia 2 and Sportitalia 24 channels and on the www.sportitalia.it website, which generated in 2010 gross revenues of approximately Euro 11.4 million,
- the exclusive advertising concession contract in 2010 on the 5 Dahlia digital pay channels and the www.dahliatv.it website, which generated gross revenues in 2010 of approximately Euro 2.4 million; in January 2011, Dahlia was wound up by its shareholders.

Starting from September 2010, La7 audience figures surged in prime time and total day time (with a share on total day in the September-December four-month period of 3.44%, rising by 15.8% versus the same period of 2009). These shares were basically maintained in January and February 2011, and are expected to continue in the months ahead, impacting positively on advertising revenues.

Based on the order book as at 10 March 2011 for advertising aired and to be aired on La7 in the January-March three-month period, the minimum contractual revenue target for the quarter, equal to Euro 30 million, and the revenues achieved in the same quarter of 2010 (Euro 30.4 million) have already been outstripped by over 25%.

Print media

As mentioned earlier, Group magazine advertising revenues, amounting to Euro 38.1 million, were also down, shedding 3.8% (versus the -5.4% of the general magazine advertising market in 2010, *ACNielsen*, but versus the -28.7% - *AC Nielsen*- of 2009).

In 2010, starting from April, Group magazine advertising revenues began swinging back upwards, Figures in 2Q10 and 3Q10 remained aligned to the corresponding quarters of 2009, while 4Q10 was up 3.2% versus 4Q09.

The same pace was seen in January and February 2011, when advertising revenues were up approximately 8% overall versus the same two-month period in 2010.

IL TROVATORE

During the year, Il Trovatore continued operations, providing technological services mainly to Group companies, as well as managing its search engine.

Alternative performance indicators

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

The alternative indicators are:

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

Net profit from continuing operations, pre tax

+/- Net finance income

+/- Share in associates

EBIT- Operating profit

+ Amortization & depreciation

+ Bad debt write-downs

+ Provisions for liabilities and risks

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

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

Transactions between controlling and group companies

Transactions in 2010 with related parties, including with Group companies, were not considered to be atypical or unusual, and were part of the ordinary activities of Group companies. These transactions were carried out on market terms, taking account of the goods and services provided. Information on transactions with related parties is disclosed in Note 36 to the consolidated financial statements and in Note 29 of the parent company financial statements.

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

Risks associated with the general economic climate

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

The year 2010 continued to suffer short- and medium-term economic uncertainty. Despite signs of recovery, particularly in the TV advertising market, there remains uncertainty over the period required for a return to normal market conditions. Should this situation of weakness and uncertainty continue for some time, the operations, strategy and outlook for the Group may be impacted.

To challenge this particular situation, the Cairo Editore Group has put in place, starting from 2008, a series of measures to increase efficiency and effectiveness of the production, publishing and distribution processes, and will continue in 2011 to benefit from the high levels of efficiency achieved, despite the likely increase in paper costs.

Risks associated with advertising and publishing market trends

Short and medium-term economic uncertainty continued to impact negatively on the advertising market in 2010.

Despite signs of recovery, particularly in the TV advertising market (+6%, *ACNielsen*, versus -13.4% in 2009), the magazine advertising segment remained on the negative side (-5.4%, *ACNielsen*, versus -28.7% in 2009). In 2010, the overall advertising market, *ACNielsen*, rose by 3.8%.

With approximately Euro 197.2 million in advertising sales, the Cairo Communication Group holds almost 2.3% of the overall advertising market (approximately 3.4% of the TV advertising market and 4.7% of the magazine advertising market). This market share leaves the Group room enough for growth, given the high quality and significant distribution of its own titles, in particular weeklies, and the agency business, qualities and distribution that provide a significant competitive edge.

The tough economic environment has in general contributed to a slowdown in the sale of dailies and magazines. Against this backdrop, in 2010 sales revenues from Group publications, amounting to Euro 71 million, were down 2% versus 2009 (Euro 72.4 million, up 2.8% versus Euro 70.5 million in 2008; revenues this year are higher than 2008), due also to the lower amount of issues of the two weeklies “Dipiù TV” and “TV Mia” (52 instead of 53), causing a loss in revenues over the period of approximately Euro 0.4 million, and to the cut price of three issues of “Dipiù TV” (loss of approximately Euro 0.6 million) and of several issues (loss of approximately 0.1 million) of “Diva e Donna”.

Advertising

The Cairo Communication Group is significantly exposed to advertising sales performance, which has progressively decreased over time as a result of significant developments in the publishing business. Advertising sales today represent around 72% of total Group revenue.

Considering the Group’s publishing business alone, advertising sales in 2010 accounted for 33% - much lower than the revenue breakdown of other major publishing groups – while the remaining 67% was generated by distribution and subscription revenues, demonstrating the great publishing strength of advertising products.

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

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

La7 presents an excellent audience profile, particularly appealing for advertising. Starting from September 2010, La7 audience figures surged in prime time and total day time. With the appointment of Enrico Mentana as new editor, the 8PM newscast’s share in 2010 peaked to 9% (8.17% average share in the September-December four-month period of 2010 versus 2.26% of the same period in 2009) and recently shot above 10%, gaining widespread attention across the media, with benefits trickling down to the top news and in-depth programmes produced by the channel.

Regarding Group titles, the excellent distribution volumes that enabled the Group to become the second major publisher of weeklies by copies sold in newsstands, net of weeklies attached to dailies, make the advertising pages appealing in terms of advertising cost per copy sold (equal to the ratio between the price of the advertising page and the copies sold) which are currently lower than those of the competition.

Distribution

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

- cover prices of the weeklies are lower, some significantly lower than those of the main competitors;
- sales are mostly at the newsstands (95%), with a minimum incidence (less than 2% on total publishing revenues, including advertising) of revenues generated by gadgets and collaterals;

- weekly magazines, which account for approximately 83% of the total publishing segment revenues, are sold as single copies and not bundled with other weeklies and/or dailies to bolster sales.

Risks associated with developments in the media segment

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

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

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

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

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

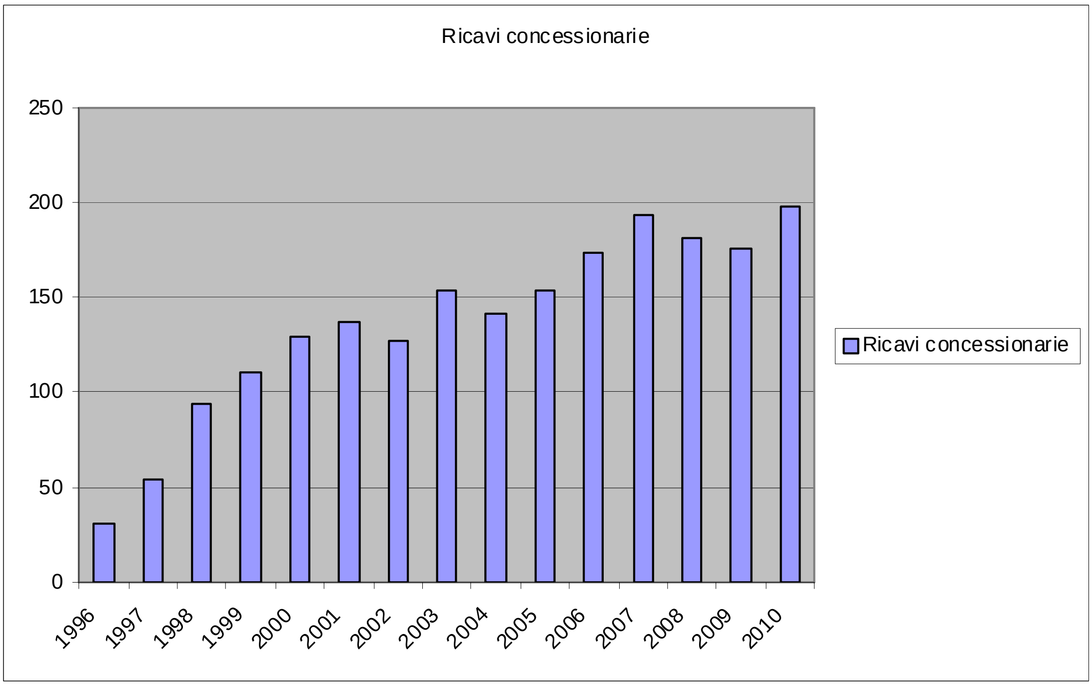
The Cairo Communication Group operates as both publisher of magazines and books, and as a multimedia broker for the sale of advertising space on television, print media, stadiums and the Internet.

In 2010 approximately 56.5% of Group gross revenues were generated from advertising for third-party publishers with respect to the Cairo Communication Group, TI Media (La7) in particular.

In December 2010, Telecom Italia Media and Cairo agreed to re-examine the advertising concession contract of 19 November 2008. Specifically, for 2011 and for the possible 2012-2014 three-year period, both set additional annual advertising revenues targets (unguaranteed) with respect to the minimum annual revenues, proportional to the achievement by Telecom Italia Media of annual targets of share higher than the given 3% for La7's share. Cairo's achievement of these additional targets, or payment to Telecom Italia Media of equivalent dues, will entitle

Cairo to renew the contract up to 31 December 2019. Otherwise, Telecom Italia Media is authorized to withdraw from the contract.

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



The advertising brokerage business started in 1996 with a number of titles of the RCS Group including "IO Donna", which in the space of a few years exceeded Euro 50 million in advertising sales. In 2001, " IO Donna" was replaced by "Anna". The contract with RCS expired at the end of 2002. In 1998 advertising sales were launched on pay TV Telepiù, which was then interrupted in July 2004. In 2003, advertising sales were launched for La7 and from 2004 those relating to new publishing initiatives for Cairo Editore. At the end of 2009, Cairo Pubblicità had entered a multi-year exclusive advertising concession contract on the digital and satellite Sportitalia and Sportitalia 2 channels and on the www.sportitalia.com website. In 2010, Cairo Communication also entered a concession contract for the new unencrypted digital channel La7d.

Risks associated with Management and "key staff"

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

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

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

The Cairo Communication Group publishes a number of leading Italian weeklies: "Settimanale Dipiù" (717,832 copies), "DipiùTV" (468,767 copies), "DipiùTV Cucina" (405,423 copies) and "Diva & Donna" (202,223 copies). Among the monthlies, "Gardenia", "Bell'Italia", "For Men Magazine", "Natural Style" and "Arte" are leaders in their own segment.

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

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

Risks associated with contractual commitments

The three-year advertising concession contract (2009-2011) for La7 signed in November 2008, renewed automatically for three more years if the contractual revenue targets are reached, sets minimum gross advertising revenues of Euro 120 million also in 2011 (target reached in 2009 and greatly exceeded in 2010), with minimum annual guaranteed fees for Telecom Italia Media of Euro 84 million (70%). In return for Cairo's commitment to minimum gross advertising revenues and minimum fees, Telecom Italia Media undertakes to maintain the annual share of La7 higher than or equal to 3% (with a contribution of the audience share of La7d – for 2010 and 2011 alone - within pre-established limits) and higher than or equal to 2.65% in prime time viewing. Should the shares drop below these thresholds, or further contractually established thresholds, Cairo is entitled to reduce the minimum guaranteed payment of Euro 84 million.

In December 2010, Telecom Italia Media and Cairo agreed to re-examine the advertising concession contract of 19 November 2008. Specifically, for 2011 and for the possible 2012-2014 three-year period, both set additional annual advertising revenues targets (unguaranteed) with respect to the minimum annual revenues, proportional to the achievement by Telecom

Italia Media of annual targets of share higher than the given 3% for La7's share. Cairo's achievement of these additional targets, or payment to Telecom Italia Media of equivalent dues, will entitle Cairo to renew the contract up to 31 December 2019. Otherwise, Telecom Italia Media is authorized to withdraw from the contract.

In December 2009 Telecom Italia Media and Cairo also renewed the concession contract for La7d up to 2014. The contract for the La7d digital channel sets minimum gross advertising revenues in 2011 of Euro 8 million for a 0.2% share, with minimum guaranteed fees paid on a monthly basis to Telecom Italia Media of Euro 5.6 million.

Failure to achieve the foregoing minimum revenues would impact on Group profit for that year. Likewise, failure to achieve the foregoing additional (unguaranteed) targets set as from 2011, proportional to the achievement by Telecom Italia Media of annual targets of share higher than the given 3% for La7's share, could impact on the duration of the contract, or if Cairo decides to pay to Telecom Italia Media of equivalent dues, its profits for that year.

Based on the order book as at 10 March 2011 for advertising aired and to be aired on La7 in the January-March three-month period, the minimum contractual revenue target for the quarter, equal to Euro 30 million, and the revenues achieved in the same quarter of 2010 (Euro 30.4 million) have already been outstripped by over 25%.

Risks associated with business with suppliers

A number of the Group's production processes, particularly print, are outsourced. The outsourcing of production processes requires close cooperation with the suppliers which, on one hand, can result in economic benefits in terms of flexibility, efficiency and cost reduction, but on the other hand, results in the Group's reliance on these suppliers.
The relationship with the printer used by the Group, which dates back to 1999 - the year Editoriale Giorgio Mondadori was acquired - is governed by an agreement valid until 2011, and although it is one of the main operators in its market, it has an excess production capacity and is potentially threatened by the presence of other large players interested in supplying the Group.
In relation to production aspects, relationships with paper suppliers is also of great importance – as a rule these are governed by contracts renewed annually.

Liquidity risks

The Cairo Communication Group is not exposed to liquidity risk, in that on one hand, significant financial resources are held with a net available positive financial position of Euro 58.3 million whilst on the other hand, the Group attempts to ensure that an appropriate ability to generate cash is maintained, despite current market conditions.

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

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

Risk of foreign exchange and interest rate fluctuation

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

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

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

Credit risk

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

The uncertainty factors in the short and medium term, along with the resulting credit squeeze, may of course impact negatively on the quality of credit and on general payment terms. In 2010, average payment terms for advertising sales improved versus 2009 with approximately 10 days.

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

The Group's maximum theoretical exposure to credit risks as at 31 December 2010 is given by the book value of trade receivables and other recorded receivables totaling Euro 108.8 million, and by the face value of guarantees furnished on third-party debts or commitments as indicated in Note 34.

The credit risks associated with cash and cash equivalents, with a maximum theoretical exposure of Euro 53.8 million, is considered irrelevant as they are deposits spread across various banks, with the above-mentioned criteria illustrated in the notes explaining "liquidity risk".

Risks associated with litigation

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

Report on corporate governance and ownership structure

1. Issuer profile

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

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

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

The Compensation Committee and the Audit Committee are bodies set up within the Board of Directors, and comprise members of the Board of Directors and provide consultative and proposal functions to the Board of Directors. The Related Party Committee, provided for by the new procedures for related party transactions adopted during the year, currently coincides with the Audit Committee.

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

The function of financial audit is entrusted to an Audit Firm registered in the relevant professional roll and is the Company's external control body. The Firm verifies, throughout the year, the regular operation of corporate accounting and the correct recording of management events and decisions in the accounting records. It is also its responsibility to ensure that the Parent Company and consolidated financial statements correspond to the accounting records and verifications performed, and that these accounting documents conform to the governing rules.

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

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

2. Information on ownership structure (pursuant to art. 123 bis of the Consolidated Finance Act – TUF) as at 10 March 2011

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

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

As at 10 March 2011, the share capital of Cairo Communication S.p.A. was Euro 4,073,856.80, fully paid and subscribed, and it comprised 78,343,400 shares (as at 31 December 2009 n. 78,343,400 shares).

	N° shares	% of share capital	Listing	Rights and obligations
Ordinary shares	78,343,400	100%	All Star segment of Borsa Italiana	According to the laws and company bylaws

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

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

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

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

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

As at 10 March 2011, in accordance with the information received pursuant to art. 120 of the T.U.F. and the update of the shareholders' register, the principal shareholders in Cairo Communication S.p.A. were as follows:

Declarer	**Direct shareholder**	**% of ordinary capital**	**% of voting capital**
URBANO ROBERTO CAIRO	U.T. COMMUNICATIONS SpA	44.812%	44.812%
URBANO ROBERTO CAIRO	U.T. BELGIUM HOLDING S.A.	15.710%	15.710%
URBANO ROBERTO CAIRO	URBANO ROBERTO CAIRO	12.387%	12.387%
SCHRODER INVESTMENT MANAGEMENT LIMITED	SCHRODER INVESTMENT MANAGEMENT LIMITED	2.102%	2.102%

As at the same date, Cairo Communication S.p.A. held n. 771,326 treasury shares, or 0.985% of the share capital, subject to the provisions of art. 2357-ter of the Civil Code.

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

No securities conferring special controlling rights have been issued.

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

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

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

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

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

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

h) *Change of control* clauses (pursuant to art. 123 bis, paragraph 1, letter h), T.U.F.)

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

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

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

On 28 April 2010, after revoking a similar resolution adopted on 29 April 2009, the Shareholders' Meeting approved the proposal to acquire treasury shares in accordance with art. 2357 and subsequent articles of the Civil Code, for the purpose of stabilizing the Company share price and sustaining liquidity, and, if deemed necessary by the Board of Directors, of establishing a "shares stock" as provided in Consob regulation 16839/2009.

The Board was authorized to acquire treasury shares up to the maximum number permitted by law, for a period of 18 months from the date of authorization, by use of available reserves, including the share premium reserve, as resulting from the last approved annual financial statements. Specifically, the Board of Directors will be authorized to acquire treasury shares on one or more occasions, acquiring shares directly on the market and through authorized intermediary - according to the procedures provided by art. 144 (ii), paragraph 1, letter b of the Stock Exchange Regulations and relevant Instructions – and, in case such operations are carried out, according to accepted market practices, pursuant to the regulations introduced by Consob Resolution No. 16839/2009.

Minimum price and maximum acquisition price per share are set at an amount equal to the average official purchase price of the share on Borsa Italiana S.p.A. for the 15 working days preceding the purchase respectively reduced or increased by 20%, in any event within a maximum limit of Euro 6.5 per share. In case such operations are carried out according to accepted market practices, the purchase of treasury shares is subject to further limits, including price limits, provided for thereto.

The proposal of the Board also allows for the authorization to sell, on one or more occasions, any acquired treasury shares, setting the minimum sale price per share no lower than the minimum price calculated following the criteria adopted for their purchase. Should the treasury shares be sold according to accepted market practices pursuant to Consob Resolution 16839/2009, the sale of treasury shares shall be subject to further limits, including price limits, provided for thereto.

In 2010, as part of the buyback plans, no treasury shares were acquired or sold.

As at December 2010, Cairo Communication held a total of n. 771,326 treasury shares, or 0.985% of the share capital.

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

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

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

Cairo Communication, though subject to rightful control by UT Communication S.p.A. – which is directly controlled by dott. Urbano R. Cairo – is neither subject to the direction and coordination of such company, nor of any other entity. The Board of Directors of Cairo Communication has come to such conclusion taking account of the absence of further elements (with respect to mere control) that may lean towards the existence of a unitary direction and the circumstance that UT Communication S.p.A. is, *de facto*, a holding company and has never actually exercised any policy-making functions and/or interference in the management of the Issuer, restricting its activities to the management of its own controlling investment.

***

Information prescribed by art. 123-bis, paragraph 1, letter (i) ("*agreements between the Company and the directors, members of the management board or supervisory board providing for compensation in the event of resignation or unjust dismissal ….*" and letter l) ("*provisions applicable to the appointment and replacement of directors and to changes to the bylaws, if diverging from the legislative and regulatory provisions that might also apply*") are illustrated in the section of the Report on the Board of Directors (Sect. 4.1).

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

The Cairo Communication Group has adopted a Corporate Governance Code for listed companies approved in March 2006 by the Corporate Governance Committee and promoted by

Borsa Italiana, and also available on the Company’s website www.cairocommunication.it and on www.borsaitaliana.it.

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

4. Board of Directors

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

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

Specifically:

- lists must be filed with the registered office within the 25th day prior to the date on which the Shareholders’ Meeting is called to decide on the appointment of the members of the Board of Directors, and made available to the public at the registered office, on the Company website and according to the procedures and law and regulations, at least 21 days before the date of the Meeting;
- lists admitted to the voting are those submitted by shareholders who, either individually or jointly with other shareholders, represent at least 2.5% of the shares entitled to vote in the ordinary meeting, or other minimum amount set by Consob. Ownership of the minimum stake required for submission of the lists is determined on the basis of the shares recorded in the name of the shareholder on the date the lists are filed with the Company. the relevant prescribed certification may also be submitted subsequent to the filing, provided submission is made within the time limit prescribed for publication of the lists.
- for the purposes of the appointment of the directors, account is taken exclusively of lists that have received at least half the votes established by the bylaws for the submission of lists;
- candidates shall appear in the lists in progressive order and equivalent to the number of directors to appoint. Should more than one list receive at least half the votes as required by the bylaws for submission of the lists, candidates appointed to the position of director shall be those appearing in the list that has received the highest number of votes, except for the last candidate appearing in the list and the candidate appearing on top of the list that has received the second-highest number of votes that is in no way, even indirectly, connected with the shareholders that have submitted or voted the list that has received the highest number of votes, subject to the possession of the requirements of independence set forth in art. 148, paragraphs 3 and 4 of the TUF and of further requirements set forth in the

Corporate Governance Code of Borsa Italiana S.p.A., failing which the appointed candidate, in his/her place, shall be the first candidate appearing in progressive order on the list possessing the foregoing requirements of independence. Should two or more lists reach a tie, the prevailing list shall be the list possessing the largest shareholding or, in the event of a tie, the highest number of shareholders;

- each list must contain candidates possessing the requirements of independence referred to in art. 147-*ter*, paragraph 4, of the TUF, and further requirements set forth in the Corporate Governance Code of Borsa Italiana S.p.A., in the minimum amount established by the provisions of law and regulations, taking also into account the share listing segment;
- in order to be admitted to the voting, each list must be accompanied by detailed information on the professional and personal qualifications of the candidates, by the statement on possession of the requirements of independence prescribed by law and by further requirements set forth in the Corporate Governance Code of Borsa Italiana S.p.A., and by indication of the identity of the shareholders who have submitted the lists and total percentage of shares held.

Mention must be made, for the purposes set forth in art. 123 *bis*, paragraph 1, letter (l) of the T.U.F. that, pursuant to art. 21, paragraph 2 of the bylaws, without prejudice to the competence of the Extraordinary Shareholders' Meeting, which has the authority to decide on the matter, pursuant to art. 2365 of the Civil Code, the Board of Directors is authorized, inter alia to adopt resolutions concerning merger, in the cases set forth in articles 2505 and 2505 of the Civil Code, capital reduction in the event of shareholder withdrawal, harmonization of the bylaws to mandatory provisions of law, relocation of the registered office to other premises in Italy.

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

The Shareholders' Meeting on 28 April 2008 appointed the Board of Directors of the Company for a three-year period, until approval of the financial statements as at 31 December 2010, on the basis of the single list presented by the majority shareholder, UT Communications S.p.A., and is composed of:

- three Executive Directors: the Chairman Urbano Cairo, Uberto Fornara and Marco Pompignoli,
- two Non-Executive Directors: Antonio Magnocavallo and Roberto Cairo and
- two Independent Directors, also possessing further requirements pursuant to the Corporate Governance Code issued by Borsa Italiana S.p.A. and required by the company bylaws: Marco Janni and Roberto Rezzonico.

With the Shareholders' Meeting called to approve the financial statements as at 31 December 2010, the Board of Directors concludes its mandate. The Meeting must, therefore, appoint the new Board, prior to the decision on the number of directors and their term, and the Chairman of the Board.

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

The directors of Cairo Communication hold no other position in companies listed on regulated markets, financial companies, banks, insurance companies or major companies, except for Avv. Marco Janni, who is chairman of CO.MO.I. SIM S.p.A. and of Intesa Lease SEC S.r.l. and board member of Intesa SEC 3 S.r.l., and for avv. Antonio Magnocavallo, until April 2010, board member and member of the executive committee of Credito Artigiano S.p.A.

Number of meetings carried out during the year		1. **BoD: 6**			**Audit Committee : 6**		**Compensation Committee: 2**			
BOARD OF DIRECTORS							Audit Committee		Compensation Committee	
ROLE	Members	Executive	Non-executive	Independent	****	Number of other positions held **	***	****	***	****
Chairman	Dr. Urbano Cairo	X			100%	-				
Managing Director	Dr. Uberto Fornara	X			100%	-				
Director	Dr. Marco Pompignoli	X			100%	-				
Director	Dr. Roberto Cairo		X		100%	-				
Director	Avv. Antonio Magnocavallo		X		100%	1	X	83%	X	100%
Director	Avv. Marco Janni			X	100%	-	X	100%	X	100%
Director	Dr. Roberto Rezzonico			X	100%	-	X	100%	X	100%

***** Percentage of meetings attended by Directors*

**** An X in this column indicates if the Director is also on the Committee*

*** Number of directorships or auditor positions held in other companies quoted on the stock exchange, including finance companies, banks and insurance companies, or of relevant size.*

Urbano Cairo is the founder of the Group and has led its growth and development. A graduate in business corporate administration from the Bocconi University, he has significant experience in the publishing and advertising segments. He started working with Fininvest in 1982 as assistant to Silvio Berlusconi. He went to work for Publitalia ’80 in 1985, where he was appointed Vice-General Manager in 1990. In 1991 he was appointed as managing director of Mondadori Pubblicità. In December 1995 he founded Cairo Pubblicità, which initiated its distributorship activity for a number of RCS Group magazines. He has therefore been the main leader behind Cairo Communication Group’s growth, whose main phases are associated with the 1998 acquisition of the company Telepiù Pubblicità, followed by Cairo TV, dedicated PAY TV distributor, the February 1999 acquisition of Editoriale Giorgio Mondadori, Cairo Communication’s listing in 2000, the contract for the exclusive rights for the sale of advertising space on La7 at the end of 2002, the birth of Cairo Editore in 2003 and his subsequent activity in developing successful new publishing initiatives (the launch of “For Men Magazine” and “Natural Style” in 2003, “Settimanale Dipiù” in 2004, “Dipiù TV”, “Diva e Donna” in 2005 and “TV Mia” in 2008).

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

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

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

Antonio Magnocavallo has been a professional civil and corporate lawyer in Milan since 1961 and is currently in partnership (Magnocavallo e Associati). He is currently board member of Fondazione Gruppo Credito Valtellinese (until April 2010 he was board member and member of the executive committee of Credito Artigiano S.p.A.) and chairman of a number of large foundations and associations. Mr. Magnocavallo has provided legal assistance and consultancy to the Cairo Communication Group since 1998.

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

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

4.3 Role of the Board of Directors

The Board of Directors met 6 times during the year. The Board meetings lasted an average of 2 hours. Six meetings are planned for the current year, one has already taken place.

The Board of Directors holds the power to purchase, sell or alter companies or company branches, and the power to grant guarantees or finance. These powers, or the following powers, cannot be delegated to individual directors:

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

The Board of Directors has also identified the transactions of financial and economic relevance that may only be approved by the Board.

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

i) disposals of assets, tangible or intangible, even those with no related cost or payment;

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

iii) providing work or services;

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

v) any other action pertaining to property rights.

Transactions of financial and economic relevance are those that must be disclosed to the market in accordance with art. 114 of the Consolidated Finance Act, by their nature, procedure or the nature of the counterparty, or those with a value of over Euro 5 million. The signing of advertising sales contracts, the Company's typical activity, is not deemed a significant operation if it does not involve cost commitments or other financial commitments beyond the granting of a percentage of the revenue generated by the contract to the media owner.

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

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

During the year, the Board:

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

The Board of Directors carried out an evaluation on the size, composition and role of the Board of Directors itself and of its committees, noting that:

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

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

4.4 Management

Given the size of the Group and Parent Company, the main executive and managerial powers, except those to purchase or dispose of company branches or companies and to furnish guarantees of every kind to third parties and, without prejudice, in any case, to the competences of the Board regarding significant operations as identified by the Board and mentioned above, are entrusted to the Chairman dott. Urbano Cairo, who is the main person in charge of defining corporate strategies and management. Director dott. Uberto Fornara is entrusted with the research and development of activities regarding the sale of advertising space and/or advertising brokerage (except for initiatives requesting commitments and obligations by the Issuer), management of the development of advertising sales, in accordance with the guidelines approved by the Board or by the Chairman, and management of staff and the sales network involved in advertising sales.

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

The Chairman is also the controlling shareholder of Cairo Communication.

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

4.5 Agreements between Company and directors (pursuant to art. 123 bis, paragraph 1, letter i), T.U.F.)

Mention must be made, also under Consob Communication n. DEM/11012984 of 24 February 2011, point 2.3, letters (a) and (f) that:

- there are no agreements in place between the Company and the directors for any compensation in the event of resignation or unjust dismissal, or in the event their employment relationship ceases following a takeover bid;
- there are agreements in place between the Company and dott. Uberto Fornara for payment of an annual compensation equal to 150% solely of his gross salary in his capacity as executive, which will become effective upon termination of his relationship prior to noncompetition commitments in the year following termination of his employment with the Company.

4.6 Recommendations on succession planning (Consob Communication n. DEM/11012984 of 24 February 2011)

Mention must be made that there are no succession plans regarding executive directors.

4.7 Other executive directors

There are no other executive directors.

4.8 Independent Directors

Marco Janni and Roberto Rezzonico are independent directors.

In 2010 (meeting of the Board of Directors of 24 March 2010) the Board of Directors and Board of Auditors verified that both Marco Janni and Roberto Rezzonico met the requirements to be deemed independent directors, in accordance with art. 3 of the Corporate Governance Code, pursuant to art. 148, paragraph 3, Legislative Decree n. 58 of 24 February 1998, and to subsequent requirements of the Corporate Governance Code issued by Borsa Italiana S.p.A. The Board of Auditors, as part of its prescribed duties, verified the criteria and procedures used by the Board of Directors for the evaluation of the independence of its members.

Regarding Avv. Marco Janni and Dott. Roberto Rezzonico's position in particular, the Board, in order to assess their independence, disregarded, for 2010, application criterion 3.C.1, letter (e), of the Code, which considers no longer independent a director of the Issuer that has been in office for more than 9 of the last 12 years.

The Board, given the non-binding nature of the application criteria of the Code for the purposes of attributing the requirements of independence, in consideration of:

(i) the absence of relations (financial or other) between avv. Janni and dott Rezzonico, on the one side, and the Issuer, and companies belonging to the same group and the controlling partner, on the other, and

(ii) the acknowledged professional qualities of the directors in question, both renowned professionals with a solid background, such as to rule out that their independence has been undermined by the recurrence of compensation received as directors

confirmed the persistence of the requirement of independence of both directors, opting for non-application of the application criterion 3.C.1, letter (e) of the Corporate Governance Code. The Board, on the other hand, deems that such conclusion also protects the interests of the Issuer to still avail itself of the directors' professional qualities, specific experience and deep knowledge of the Company's inner workings gained during their tenure in the Board of Directors.

The Board of Auditors formally acknowledged the decision and verified the proper application of the criteria adopted by the Board of Directors to assess the independence of its members.

The number of independent directors, and their function, are deemed appropriate in relation to the size of the Board of Directors and the Company's activities, and to facilitate the establishment of Compensation and Audit Committees (for further information, see sections 8 and 10 below).

During the year, the independent directors held informal discussions on various occasions without reporting any situation requiring clarification or further discussion.

4.9 Lead Independent Director

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

During the year, there was no need to arrange specific meetings solely with independent directors.

5. Treatment of privileged information

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

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

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

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

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

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

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

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

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

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

6. Board of Directors' Committees

The Board of Directors has set up three committees within the Board itself – the Compensation Committee, the Audit Committee and the Related Party Committee (refer below to section 12).

7. The Nomination Committee

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

8. Compensation Committee

The members of the Compensation Committee were appointed by the Board of Directors on 14 May 2008, confirming the members already appointed for the previous three-year period.

The Compensation Committee (until approval of the financial statements as at 31 December 2010), in compliance with the recommendations of the Corporate Governance Code, currently comprises non-executive Directors Roberto Rezzonico (independent), Marco Janni, (independent) and Antonio Magnocavallo. Its functions include:

- the formulation of proposals to the Board of Directors regarding compensation of Managing Directors or those with particular responsibilities, monitoring the application of decisions adopted by the Board itself;
- to periodically evaluate the criteria adopted for the compensation of managers with strategic responsibilities, in addition to oversight of the application of potential stock option plans on the basis of information provided by Managing Directors, and to provide the Board of Directors with relevant general recommendations.

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

In 2010, the Compensation Committee met twice, for about 1 hour and with all members present. At least two meetings are scheduled this year. Minutes are kept of every meeting.

The Board of Directors' meeting on 14 May 2008 allocated Euro 15 thousand as annual compensation due to the Compensation Committee.

9. Compensation of Directors

Incentivizing compensation criteria for executive directors and senior managers with strategic responsibilities, with the exception of the Chairman and CEO, have been introduced over time. The Board of Directors, having heard the views of the Compensation Committee, and since the Chairman and CEO, Mr. Urbano Cairo, is the controlling shareholder of the company, decided that incentivized compensation criteria would be unnecessary.

The variable component of compensation due to managing director dott. Uberto Fornara in 2010, equivalent to Euro 395 thousand (approximately 50% of his total compensation), is linked to the achievement of targets regarding increase in advertising profitability and revenues.

Mr. Marco Pompignoli, Chief Financial Officer, received supplementary compensation in 2010 of Euro 180 thousand for his work, following a decision made by the Board based on a proposal by the Compensation Committee on the basis of thorough qualitative evaluations.

Senior managers with strategic responsibilities for Cairo Communication S.p.A. fulfill the role of Directors.

There are no share-based incentive plans in place in favour of executive directors and/or senior managers with strategic responsibilities.

The compensation of non-executive directors is not based on company performance. They do not receive any share-based incentive plans.

Directors' compensation for 2010 may be analyzed as follows:

Name and surname	Position	Fee	Benefits in kind	Bonuses and other incentives	Other compensation *	Total
Dr. Urbano R. Cairo	Chairman of the Board	150	7	-	855	1,012
Dr. Uberto Fornara	CEO	474	4	-	330	808
Dr. Roberto Cairo	Director	20	-	-	-	20
Avv. Marco Janni	Director	40	-	-	-	40
Avv. Antonio Magnocavallo	Director	40	-	-	-	40
Dr. Marco Pompignoli	Director	290	3	-	335	628
Dr. Roberto Rezzonico	Director	40	-	-		40

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

- *Dr. Urbano Cairo: compensation pursuant to art. 2389, paragraph 3, Civil Code (Euro 130 thousand).*
- *Dr. Uberto Fornara: compensation pursuant to art. 2389, paragraph 3, Civil Code (Euro 454 thousand).*
- *Avv. Marco Janni: compensation for attendance in meetings of the Compensation Committee, Audit Committee and Related Party Committee (Euro 20 thousand);*
- *Avv. Antonio Magnocavallo: compensation for attendance in meetings of the Compensation Committee, Audit Committee and Related Party Committee (Euro 20 thousand);*
- *Dr. Marco Pompignoli: compensation pursuant to art. 2389, paragraph 3, Civil Code (Euro 270 thousand);*
- *Dr. Roberto Rezzonico: compensation for attendance in meetings of the Compensation Committee, Audit Committee and Related Party Committee (Euro 20 thousand).*

*** Other compensation refers to:*

- *Dr. Urbano Cairo: compensation for his duties performed for Cairo Editore (Euro 850 thousand) and other companies of the Group (Euro 5 thousand).*
- *Dr. Uberto Fornara: gross compensation as senior manager payable by Cairo Communication (Euro 224 thousand) and compensation for his duties performed for Cairo Pubblicità (Euro 100 thousand) and other companies of the Group (Euro 6 thousand).*
- *Dr. Marco Pompignoli: gross compensation as senior manager payable by Cairo Communication (Euro 140 thousand) and compensation for his duties performed for Cairo Pubblicità (Euro 190 thousand) and other companies in the Group (Euro 5 thousand).*

No agreements have been entered into between the Issuer and the directors providing for compensation payments in case of resignation or unjust dismissal/removal or should the employment relationship come to an end due to a takeover bid.

10. The Audit Committee

The Board of Directors' meeting of 14 May 2008 appointed the members of the Audit Committee, confirming the same members of the past three-year period.

The Audit Committee (until approval of the financial statements as at 31 December 2010) currently comprises, in accordance with the Corporate Governance Code, non-executive directors Roberto Rezzonico (independent), Marco Janni, (independent) and Antonio Magnocavallo.

Roberto Rezzonico has appropriate experience in accounting and financial issues.

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

i) define the guidelines of the internal audit system, so that the main risks affecting the Company and its subsidiaries are correctly identified and appropriately measured, managed and monitored, identifying the extent to which these risks can be tolerated to assure sound and accurate management of the company;

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

the Committee also

iii) evaluates, together with the Financial Reporting Manager and with the auditors, the proper application of accounting principles, and in the case of groups, overall consistency of the consolidated financial statements;

iv) upon request from the executive director in charge, to express an opinion on specific aspects relating to the identification of the main corporate risks and the planning, implementation and management of the internal audit system;

v) examines the action plan and reviews periodic reports prepared by the internal audit manager;

vi) evaluates the proposals that need to be implemented as presented by the Statutory Auditors, in addition to their action plan for the audit, the results presented in their audit report and, if applicable, the management letter;

vii) monitors the effectiveness of the audit process;

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

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

In 2010, the Audit Committee met 6 times. Minutes of the meetings, lasting for about 3 hours, were recorded. Six meetings are scheduled this year.

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

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

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

Given the current composition of the Board, the Audit Committee presently coincides with the Related Party Committee, provided for by the procedures for related party transactions adopted in 2010 as mentioned below.

The meeting of the Board of Directors of 14 May 2008 had allocated Euro 45 thousand as annual fees due to the Audit Committee.

11. Internal audit system

Purposes and objectives

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

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

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

- Position Paper Andaf "Financial Reporting Manager";
- Position Paper AIIA "Law n.262 on the Protection of Public Savings";
- Confindustria guidelines "Guidelines for the functions performed by the Financial Reporting Manager pursuant to art. 154-bis TUF".

The Board of Directors, assisted by the Audit Committee, defines the policies of the internal audit system, so that the primary risks to which the Company and its subsidiaries are exposed are identified, evaluated, managed and monitored correctly, identifying the extent to which these risks can be tolerated to assure sound and accurate management of the company.

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

The evaluation of the internal audit system is regularly conducted to verify the appropriateness of the following:

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

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

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

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

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

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

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

b)	Identification of controls upon identification of risks;

c)	Evaluation of controls upon identification of risks.

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

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

	The quantitative analysis, aimed at the identification of the relevant entries, is performed through the application of the concept of "tangibility" to the aggregate items in the trial balance of the Cairo Communication Group. The tangibility threshold was determined as a fixed percentage in compliance with the indications in Section 2621 of the Civil Code (substituted by Law December 28, 2005 No. 262).

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

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

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

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

b) Identification of the controls corresponding to the identified risks: the identification of the controls necessary for the mitigation of the ascertained risks is performed associating the risks identified to the relative control objectives, meaning the group of objectives that the financial reporting control system intends on achieving in order to ensure a true and correct representation.

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

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

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

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

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

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

Roles and functions

Art. 154-bis of the Consolidated Finance Act provides for the presence, in the corporate organization of listed companies, of the "Financial Reporting Manager", appointed by the Board of Directors in concert with the Managing Director. The Manager is responsible for planning, implementing and approving the accounting and administrative control model, and for assessing its application, issuing a certificate on half-year, annual and consolidated financial statements.
The Manager is also responsible for preparing adequate administrative and accounting procedures for the formation of the parent company and consolidated financial statements, and for providing subsidiaries, considered as significant entities for the preparation of the Group's consolidated financial reporting, with instructions on how to perform an appropriate evaluation of their accounting control system.

The internal risk and control management system related to financial reporting also involves other subjects typical of the Company's Corporate Governance structure, such as the Board of Directors, the Audit Committee, the internal audit manager and the Board of Auditors.

Overall evaluation of the appropriateness of the internal audit system

Based on the information and evidence gathered following an enquiry conducted by the Audit Committee, supported by Management and by the internal audit manager, the Board of Directors deems the internal audit system to be, as a whole, appropriate for allowing, with reasonable assurance, achievement of the Company's objectives.
The evaluation, as it refers to the overall internal audit system, is by nature limited. Although well-structured and in operation, the internal audit system is designed only to guarantee accomplishment of corporate objectives with "reasonable assurance".

11.1 Executive director responsible for the internal audit system

Marco Pompignoli, executive director, is responsible for overseeing the operation of the internal audit system. In 2010, he was responsible for:

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

11.2 Internal audit manager

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

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

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

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

In 2010, the activities of the internal audit manager mainly focused on verifying the updating and implementation process of corporate procedures. He also performed internal audit functions and is member of the Supervisory Board pursuant to Legislative Decree 231/2001, as stated in section 11.3 below.

11.3 Organization Model pursuant to Legislative Decree 231/2001

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

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

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

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

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

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

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

In 2010, the members of the Supervisory Board of Cairo Communication S.p.A. were Ezio Micheli, internal audit manager, Iolanda Campolo and Marco Bisceglia. On February 11, 2011, the Board of Directors appointed Giacomo Leone as member of the Supervisory Board, replacing outgoing Chairman Iolanda Campolo, and appointed Marco Bisceglia as Chairman.

11.4 Audit Firm

The Shareholders' Meeting on 30 January 2006 approved extension for the responsibility of the audit of the financial statements and the consolidated financial statements and the limited review of the half-year report to the audit firm Deloitte & Touche S.p.A., for a further six year period, or until the end of the 2010/2011 financial year.
Following the decision to change Cairo Communication S.p.A.'s financial year-end date from 30 September to December 31 of each year approved by the Shareholders' Meeting on 21 December 2007, the period of validity of the audit responsibility was modified to the financial statements for the year ending 31 December 2010.
The Shareholders' Meeting called to approve the financial statements as at 31 December 2010 must also confer the audit assignment for the 2011-2019 nine-year period to a new audit firm, based upon a motivated proposal by the Board of Auditors.

11.5 Financial Reporting Manager

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

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

12. Related party transactions

Consob, through Resolution n. 17221 of 12 March 2010, amended through subsequent Resolution n. 17389 of 23 June 2010, adopted, pursuant to art. 2391-*bis* of the Civil Code, and to articles 113-*ter*, 114, 115 and 154-*ter* of the TUF, the regulations regarding provisions pertaining to related party transactions, to which management bodies of issuers of widely distributed securities must comply (the "**Regulations**").

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

Pursuant to the Regulations, Cairo Communication is considered a "smaller company", since its balance sheet assets and its revenues as of the consolidated financial statements as at 31 December 2009 are lower than Euro 500 million, amounting respectively to approximately Euro 177 million and to Euro 228 million. For such companies, the Regulations provides for the possibility to "apply to transactions of greater importance, departing from art. 8, a procedure identified for the purpose of art. 7 of the Regulations" (operations of lesser importance).

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

a) the definition of related parties and transactions;

b) roles and responsibilities;

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

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

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

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

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

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

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

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

- substantial correctness means correctness of the transaction from an economic point of view when, for instance, the transfer price of a good is in line with market prices and, more in general, when the transaction has not been influenced by the related party relationship, or at least said relationship has not determined the acceptance of conditions that are unjustifiably penalizing for the Company;

- procedural correctness means compliance with procedures aimed at ensuring the substantial correctness of the transaction and, therefore, observance of the rules through which it is at least potentially ensured that related party transactions do not determine any unjustified prejudice to the reasons of the Company and its investors.

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

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

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

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

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

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

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

13. Appointment of the Board of Auditors

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

Specifically:

- members of the Board of Auditors are appointed on the basis of lists that must be submitted at the registered office of the Company within 25 days prior to the Shareholders' Meeting called to decide on the appointment of the members of the Board of Auditors, made available to the public at the registered office, on www.cairocommunication.it and in accordance with the other procedures provided by law and the regulations, at least 21 days before the date of the Meeting. Upon expiry of the time limit of 25 days prior to the Meeting, in the event only one list has been submitted, or lists submitted by shareholders who are connected, pursuant to applicable provisions, lists may be submitted until the fourth day (as set forth in the bylaws) subsequent to such date. In this event, the foregoing 2.5% threshold (or other minimum amount set by prevailing laws) is reduced by half;
- lists admitted to the voting are those submitted by shareholders who, either individually or jointly with other shareholders, represent at least 2.5% of the shares entitled to vote in the ordinary meeting, or other minimum amount set by Consob. Ownership of the minimum stake required for the submission of lists is determined on the basis of the shares recorded in the name of the shareholder on the date the lists are filed with the Company; candidates holding the position of auditor in 5 (five) other listed companies (excluding their subsidiaries, although listed) or holding a number of positions exceeding the cumulative limit prescribed by law and by Consob, or failing to possess the requirements of integrity and professionalism established by prevailing laws, shall not appear in the lists. Each list shall be accompanied a) by information regarding the identity of the shareholders who have submitted the list, indicating total percentage of shares held, and by prescribed certification on ownership of the stake, which may be submitted also subsequent to filing, provided within the time limit set for publication of the lists; b) by a statement of the shareholders other than those who hold, also jointly, a controlling or relative majority interest, declaring they have no relationship of connection, pursuant to applicable provisions; c) by detailed information regarding the personal and professional qualifications of the candidates, and a statement with which each candidate accepts nomination and attests, under own responsibility, that there are no reasons for ineligibility

or incompatibility with the position, and confirms possession of the requirements prescribed by law and the bylaws for the respective positions.

- the chairman of the board of auditors shall be the candidate indicated on top of the list that has received the second-highest number of votes. The bylaws do not provide for the appointment of more than one minority auditor, nor do they provide for the possibility of drawing a number of alternate auditors from the minority list to replace the minority member greater than the minimum required by Consob.

- should two or more lists reach a tie, the prevailing list shall be the list possessing the largest shareholding or, in the event of a tie, the highest number of shareholders.

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

The Shareholders' Meeting on 28 April 2008 appointed the Board of Auditors for a three-year period, until the approval of the financial statements as at 31 December 2010, on the basis of a list presented by the major shareholder, UT Communication S.p.A. The Board of Auditors comprises three statutory auditors, Mauro Sala (Chairman), Maria Pia Maspes and Marco Moroni, and two alternate auditors, Mario Danti and Ferdinando Ramponi, who have certified that they know of no relative cause of ineligibility or incompatibility, and that they meet the requirements for the position under current legislation.

Post	Members	Percentage of Board meetings attended	Number of other positions held*
Chairman	Mauro Sala	100%	-
Statutory auditor	Marco Moroni	100%	-
Statutory auditor	Maria Pia Maspes	100%	-
Alternate auditor	Ferdinando Ramponi	N/A	-
Alternate auditor	Mario Danti	N/A	-
Meetings held during the year: 5			
Quorum required for the submission of lists by minority shareholders for the election of one or more statutory members (pursuant to art. 148 TUF): 2.5%			

** Number of directorships or auditor positions held in other companies listed on Italian regulated markets.*

With the Shareholders' Meeting called to approve the financial statements as at 31 December 2010, the Board of Auditors concludes its mandate. The Meeting must, therefore, appoint the new Board.

In 2010, five meetings were held each lasting approximately 2 hours. Five meetings are scheduled for the current year, one already held.

The Board of Auditors assessed the independence of its members following their appointment and on an annual basis, adopting the criteria provided by the Corporate Governance Code with reference to the independence of directors. Regarding specifically the position of dott. Mauro Sala, the Board of Auditors - applying in its evaluation the criteria prescribed by the Corporate Governance Code referring to the independence of directors - disregarded application criterion 3.C.1, letter (e), of the Code (non-independence for a director of the Issuer who has held the post for more than 9 years in the last 12 years).

The Board of Auditors, given the non-binding nature of the application criteria of the Code for the purposes of attributing the requirements of independence, in consideration of:

(i) the absence of relations (financial or other) - differing from the position also held in the board of auditors of several subsidiaries and of the controlling company UT Communications S.p.A. - between dott. Mauro Sala, on the one side, and the Issuer, as well as the companies belonging to the same group and the controlling partner, on the other, and

(ii) the acknowledged professional qualities of the auditor in question, a renowned professional with a solid background, such as to rule out that his independence has been undermined by the recurrence of compensation received as auditor

confirmed the persistence of the requirement of independence of the foregoing auditor in 2010, opting for non-application of the application criterion 3.C.1, letter (e) of the Corporate Governance Code. The Board deems that such conclusion also protects the interests of the Issuer to still avail itself of the auditor's professional qualities, specific experience and deep knowledge of the Company's inner workings, gained during his tenure in the Board of Auditors.

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

In the performance of its duties, the Board of Auditors coordinated its activities with the internal audit manager and with the Audit Committee.

15. Investor Relations

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

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

16. Shareholders' Meetings

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

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

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

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

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

17. Further corporate governance practices

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

18. Changes after year end

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

Stock Option

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

Shares held by directors, auditors and general managers

Shares held directly by Directors, Auditors and General Managers can be detailed as follows:

Name and Surname	Shares in	Number of shares held at the end of the previous year	Number of shares purchased / other movements	Number of shares sold / other movements	Number of shares held at the end of the current year
Dr. Urbano R. Cairo *	Cairo Communication	57,132,500	-	-	57,132,500
‘’	Cairo Editore	510	-	-	510
‘’	Diellesei S.p.A. in liquidation	800,000	-	-	800,000
Dr. Roberto Cairo		100,000	-	-	100,000
Dr. Uberto Fornara		279,120		(50,000)	229,120
Avv. Marco Janni		-	-	-	-
Avv. Antonio Magnocavallo		-	-	-	-
Dr. Marco Pompignoli		114,000	-	-	114,000
Dr. Roberto Rezzonico		-	-	-	-
Dr. Mauro Sala		-	-	-	-
Dr. Marco Moroni		-	-	-	-
Dr. Maria Pia Maspes		-	-	-	-

- *Shares held directly and/or through “U.T. COMMUNICATIONS S.p.A.” and its subsidiaries.*

Other information

Research and development activities

There are no research and development activities to be disclosed which have a significant effect on the performance of the Company or the Group.

Human resources

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

Staff turnover during 2010 and its composition as at 31 December 2010 can be analyzed as follows:

Description	**01/01/2010**	**Recruitments**	**Terminations**	**Advancements**	**31/12/2010**
Permanent contracts	253	11	(6)	-	258
Senior managers	13	2	-	-	15
Managers	18	2	(1)	-	19
Employees	123	6	(3)	(1)	125
Journalists and freelance	99	1	(2)	1	99
Temporary contracts	6	8	(11)	-	3
Senior managers	-	-	-	-	-
Managers	-	-	-	-	-
Employees	-	5	(3)	-	2
Journalists and freelance	6	3	(8)	-	1
Total	**259**	**19**	**(17)**	**-**	**261**

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

	Senior managers	Managers	Employees	Journalists
Men (number)	14	12	35	40
Women (number)	1	7	92	60
Average age	50	44	38	45
Seniority	10	9	8	9
Permanent contracts	15	19	125	99
Temporary contracts	-	2	-	1
Other	-	-	-	-
Graduates	12	7	31	44
Diploma holders	2	12	81	53
Middle school graduates	1	-	15	3

Most of the employees (200) work in the publishing segment. Two out of six title Directors are women.

The advertising segment draws on a sales force composed of approximately 100 agents (direct and indirect) who are coordinated by senior sales managers and staff who, together with their staff, also ensure coordination with the editors and the promotion of special incentives.

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

There were no accidents in the workplace or charges for professional illness during the year.

Environment

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

Privacy

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

In 2009, both the technical and organizational measures and methods, relative to the conservation of the identifying details of the system administrators and to the verification of the work performed by them, to guarantee the monitoring of the work of the same, were adopted - adding to those that were already operative where necessary.

SIGNIFICANT EVENTS AFTER YEAR END AND MANAGEMENT OUTLOOK

In 2010, uncertainty continued to loom over the short and medium-term economic landscape. To date, despite some signs of recovery, especially in the TV advertising market, there remains uncertainty over the period required for a return to normal market conditions.

Against such a harsh backdrop, in 2010 the Group's operating results were much brighter than those of 2009, thanks mainly to the high quality of its publications and of the media under concession, and to its editorial strategy, which helped implement cost-curbing measures to increase the effectiveness and efficiency of production, publishing and distribution processes.

In order to appropriately measure the results achieved by the Cairo Communication Group in 2010, one should consider that in 2009 – the actual comparison year - Cairo's EBITDA had been in line with the figure reported in 2008, despite operating in a tough market for publishing, amidst a general decline in profits hitting the media and advertising segments.

In 2011 the Cairo Communication Group will continue to develop its core businesses:

- publishing, led by Cairo Editore and Cairo Publishing, with efforts geared towards maintaining circulation levels high, while continuing to benefit from the levels of efficiency achieved by containing production, publishing and distribution costs, and
- advertising sales on TV, on the Group's publications and on Prima Comunicazione, on the Internet and at the "Olimpico" stadium in Turin for Torino FC, with the aim of increasing advertising revenues, thanks also to the strong rise in the share of La7.

Starting from September 2010, La7 audience figures surged in prime time and total day time (with a share on total day in the September-December four-month period of 3.44%, rising by 15.8% versus the same period of 2009). With the appointment of Enrico Mentana as new editor, the 8PM newscast's share in 2010 peaked to 9% (8.17% average share in the September-December four-month period of 2010 versus 2.26% of the same period in 2009) and recently crossed the 10% mark in 2011, bringing widespread exposure across the media, with benefits trickling down to all the other top news and in-depth programmes produced by the channel, such as "Omnibus", "Le invasioni barbariche", "L'infedele" - whose share in January and February 2011 exceeded 7% in some moments – and "Otto e mezzo", which increased its audience, with shares shooting above 5% (5.37% average share in the September-December four-month period of 2010 versus 3.29% of the same period of 2009). These shares were basically maintained in

January and February 2011, and are expected to continue in the months ahead, impacting positively on advertising revenues.
Based on the order book as at 10 March 2011 for advertising aired and to be aired on La7 in the January-March three-month period, the minimum contractual revenue target for the quarter, equal to Euro 30 million, and the revenues achieved in the same quarter of 2010 (Euro 30.4 million) have already been outstripped by over 25%.
Given the high quality of the Group’s publications and the media under concession, an increase in profitability levels in 2011 versus 2010 is considered a feasible target. However, the evolution of the general economic situation could affect the full achievement of these targets.

Dear Shareholders,

At the meeting held on 10 March 2011, the Board of Directors resolved to submit the financial statements as at 31 December 2010 to the approval of the Shareholders' Meeting and to propose the distribution of a dividend of 0.25 Euro per share.

Shareholders are invited:

- to approve the financial statements for the year ended 31 December 2010;
- to resolve on the proposal to distribute a dividend to shareholders of 0.25 Euro per share, inclusive of tax, with the exception of treasury shares held the evening prior to the detachment date:
    - distributing net profit for the year of Euro 17,898,513
    - drawing, for the difference, on the share premium reserve.

If approved by the Meeting, a dividend of Euro 0.25 per share will be distributed with detachment date on 9 May 2011.

Chairman of the Board of Directors

Dott. Urbano Cairo

CAIRO COMMUNICATION

Consolidated Financial Statements and Explanatory Notes

Consolidated income statement as at 31 December 2010

€ thousands	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Net sales	1	243.560	226.658
Other operating revenues	2	2.871	1.654
Non-recurring income from Cairo-Telepiù arbitration	2	6.792	
Inventory movements finished products	3	(35)	(165)
Materials and supplies	4	(25.243)	(30.336)
Costs for services	5	(165.867)	(149.744)
Rental expenses	6	(2.422)	(2.472)
Personnel costs	7	(21.753)	(21.684)
Amortization, depreciation, write-downs and provisions	8	(3.738)	(3.795)
Other operating costs	9	(1.078)	(1.097)
Operating profit		**33.087**	**19.019**
Investment income	10	1	(79)
Net financial income	11	349	626
Pre-tax profit		**33.437**	**19.566**
Income tax	12	(12.640)	(7.401)
Net profit from continuing operations		**20.797**	**12.165**
Net profit / (loss) from discontinued operations	13	**(67)**	**(127)**
Net profit for the year		**20.730**	**12.038**
- Group share		20.729	12.034
- Minorities' share from discontinued operations		0	0
- Minorities' share from continuing operations		1	4
		20.730	**12.038**
Earnings per share (€)			
- Earnings per share from continuing and discontinued operations	15	0,267	0,155
- Earnings per share from continuing operations	15	0,268	0,157

Consolidated statement of comprehensive income as at 31 December 2010

		Year ended 31 December 2010	Year ended 31 December 2009
Net profit for the year		**20.730**	**12.038**
Profit (loss) from the valuation of investments available for sale	18	(1.775)	(349)
Total statement of comprehensive income for the year		**18.955**	**11.689**
- Group share		18.954	11.685
- Minorities' share from discontinued operations		0	0
- Minorities' share from continuing operations		1	4
		18.955	**11.689**

Consolidated balance sheet as at 31 December 2010

€ thousands Assets	Notes	31 December 2010	31 December 2009
Property, plant and equipment	16	2.656	2.812
Intangible assets	17	9.552	13.101
Investments	18	2.255	4.030
Non-current financial assets		64	83
Deferred tax assets	19	4.480	4.652
Total non-current assets		**19.007**	**24.678**
Inventory	20	2.952	4.311
Trade receivables	21	93.942	89.244
Parent company receivables	31	63	589
Miscellaneous receivables and other current assets	22	14.792	6.632
Marketable securities	23	79	7.622
Cash and cash equivalents	24	58.260	43.867
Total current assets		**170.088**	**152.265**
Assets held for sale		0	0
Total assets		**189.095**	**176.943**

Equity and liabilities		31 December 2010	31 December 2009
Share capital		4.074	4.074
Share premium reserve		51.081	54.657
Net profit / (loss) of previous years and other reserves		(5.700)	(4.018)
Net profit for the year		20.729	12.034
Net Group equity		**70.184**	**66.747**
Minorities' share capital and reserves		**0**	**(1)**
Total equity	**25**	**70.184**	**66.746**
Provision for retirement benefits and staff severance	26	3.891	3.813
Provisions for liabilities and charges	28	2.124	1.939
Total non-current liabilities		**6.015**	**5.752**
Current borrowings	29	0	126
Trade payables	30	97.787	92.137
Parent company payables	31	3.928	995
Tax liabilities	32	2.281	1.403
Other current liabilities	33	8.900	9.784
Total current liabilities		**112.896**	**104.445**
Liabilities held for sale or discontinued		0	0
Total liabilities		**118.911**	**110.197**
Total equity and liabilities		**189.095**	**176.943**

Consolidated cash flow statement as at 31 December 2010

€ thousands	Year ended 31 December 2010	Year ended 31 December 2009
CASH AND CASH EQUIVALENTS	**43.741**	**54.954**
OPERATING ACTIVITIES		
Net profit	20.730	12.038
- non-recurring	*3.670*	
Amortization	975	994
Movements in intangible assets due to arbitration	3.152	0
- non-recurring	*3.152*	*0*
Investment income	0	79
Net financial income	(350)	(462)
Income tax (*)	12.622	7.357
- non-recurring	*3.122*	*0*
Net movement in provision for employee and retirement benefits	78	111
Net movement in provisions for liabilities and charges	185	(6)
Cash flow from operating activities before movements in working capital	**37.392**	**20.111**
(Increase) decrease in trade and other receivables	(12.919)	(16.435)
- non-recurring	*(5.941)*	*0*
Increase (decrease) in trade and other payables	4.766	9.820
(Increase) decrease in other assets	0	0
(Increase) decrease in inventory	1.359	143
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	**30.598**	**13.639**
Income tax paid	(8.052)	(10.194)
Financial charges paid	(21)	(268)
TOTAL NET CASH FROM OPERATING ACTIVITIES (A)	**22.525**	**3.177**
INVESTMENT ACTIVITIES		
(Acquisition) net disposal in PPE and intangible assets	(422)	(166)
Interest and financial income received	371	851
Dividends received from associates	0	0
Net increase in other non-current assets	19	4
NET CASH USED IN INVESTMENT ACTIVITIES (B)	**(32)**	**689**
FINANCING ACTIVITIES		
Dividends paid	(15.515)	(15.452)
(Acquisition) disposal of treasury shares	0	372
(Increase) decrease in restricted bank deposits	7.543	6.526
- non-recurring	*7.543*	*0*
New loan finance / (loans repaid)	0	(6.526)
Other changes in equity	(2)	1
NET CASH USED IN FINANCING ACTIVITIES (C)	**(7.974)**	**(15.079)**
NET CASH FLOW OF THE YEAR (A)+(B)+(C)	**14.519**	**(11.213)**
CLOSING CASH AND CASH EQUIVALENTS	**58.260**	**43.741**

(*) The item includes tax charges from continuing operations amounting to Euro 12,640 thousand (Euro 7,401 thousand as at 31 December 2009) and the tax benefit from the discontinued operations amounting to Euro 18 thousand (charges of Euro 44 thousand as at 31 December 2009)

Statement of change in consolidated equity

€ thousands	Share capital	Share premium reserve	Net profit/(loss) of previous years & other reserves	Reserve of investments available for sale	Net profit for the year	Group equity	Minorities' share capital and reserves	Total
Balance as at 31 December 2007	**4.074**	**71.659**	**10.028**	**0**	**3.606**	**89.367**	**(11)**	**89.356**
Allocation of profit and dividend distribution		(13.998)	(13.537)		(3.606)	**(31.141)**		**(31.141)**
Purchase of treasury shares			(1.007)			**(1.007)**		**(1.007)**
Other movements			1			**1**		**1**
Net profit for the year					12.922	**12.922**	5	**12.927**
Balance as at 31 December 2008	**4.074**	**57.661**	**(4.515)**	**0**	**12.922**	**70.142**	**(6)**	**70.136**
Allocation of profit			12.922		(12.922)	**0**		**0**
Dividend distribution		(3.004)	(12.448)			**(15.452)**		**(15.452)**
Purchase of treasury shares			(409)			**(409)**		**(409)**
Disposal of treasury shares			781			**781**		**781**
Other movements						**0**	1	**1**
Net profit for the year				(349)	12.034	**11.685**	4	**11.689**
Balance as at 31 December 2009	**4.074**	**54.657**	**(3.669)**	**(349)**	**12.034**	**66.747**	**(1)**	**66.746**
Allocation of profit			12.034		(12.034)	**0**		**0**
Dividend distribution		(3.576)	(11.939)			**(15.515)**		**(15.515)**
Other movements			(2)			**(2)**		**(2)**
Net profit for the year				(1.775)	20.729	**18.954**	1	**18.955**
Balance as at 31 December 2010	**4.074**	**51.081**	**(3.576)**	**(2.124)**	**20.729**	**70.184**	**0**	**70.184**

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

€ thousands	Year ended 31 December 2010	related parties (*)	% of total	Year ended 31 December 2009	related parties (*)	% of total
Net sales	243.560	122	0,1%	226.658	100	0,0%
Other operating revenues	2.871			1.654	48	2,9%
Non-recurring income	6.792					
Inventory movements finished products	(35)			(165)		
Materials and supplies	(25.243)			(30.336)		
Costs for services	(165.867)	(1.388)	0,8%	(149.744)	(2.188)	1,5%
Rental expenses	(2.422)			(2.472)		
Personnel costs	(21.753)			(21.684)		
Amortization, depreciation, write-downs and provisio	(3.738)			(3.795)		
Other operating costs	(1.078)			(1.097)		
Operating profit	**33.087**			**19.019**		
Investment income	1	1	100,0%	(79)	(79)	100,0%
Net financial income	349			626		
Pre-tax profit	**33.437**			**19.566**		
Income tax	(12.640)			(7.401)		
Net profit from continuing operations	**20.797**			**12.165**		
Net profit / (loss) from discontinued operations	**(67)**			**(127)**		
Net profit for the year	**20.730**			**12.038**		

(*) Related party transactions are analyzed in subsequent Note 36 of the Explanatory Notes

Balance sheet pursuant to Consob Resolution no. 15519 of 27 July 2006

Consolidated balance sheet as at 30 June 2010

€ thousands

Assets	**31 December 2010**	**related parties (*)**	**% of total**	**31 December 2009**	**related parties (*)**	**% of total**
Property, plant and equipment	2.656			2.812		
Intangible assets	9.552			13.101		
Investments	2.255	10	0,4%	4.030	10	0,2%
Non-current financial assets	64			83		
Deferred tax assets	4.480			4.652		
Total non-current assets	**19.007**			**24.678**		
Inventory	2.952			4.311		
Trade receivables	93.942	451	0,5%	89.244	85	0,1%
Parent company receivables	63	63	100,0%	589	589	100,0%
Miscellaneous receivables and other current assets	14.792			6.632	24	0,4%
Marketable securities	79			7.622		
Cash and cash equivalents	58.260			43.867		
Total current assets	**170.088**			**152.265**		
Assets held for sale	0			0		
Total assets	**189.095**			**176.943**		

Equity and liabilities	**31 December 2010**			**31 December 2009**		
Share capital	4.074			4.074		
Share premium reserve	51.081			54.657		
Net profit / (loss) of previous years	(5.700)			(4.018)		
Net profit for the year	20.729			12.034		
Group equity	**70.184**			**66.747**		
Minorities' share capital and reserves	**0**			**(1)**		
Total equity	**70.184**			**66.746**		
Provision for retirement benefits and staff severance	3.891			3.813		
Non-current borrowings	0			0		
Provisions for liabilities and charges	2.124			1.939		
Total non-current liabilities	**6.015**			**5.752**		
Current borrowings	-			126		
Trade payables	97.787	239	0,2%	92.137	316	0,3%
Parent company payables	3.928	3.928	100,0%	995	995	100,0%
Tax liabilities	2.281			1.403		
Other current liabilities	8.900			9.784		
Total current liabilities	**112.896**			**104.445**		
Liabilities held for sale or discontinued	0			0		
Total liabilities	**118.911**			**110.197**		
Total equity and liabilities	**189.095**			**176.943**		

(*) Related party transactions are analyzed in subsequent Note 36 of the Explanatory Notes

Cash flow statement pursuant to Consob Resolution no. 15519 of 27 July 2006

€ thousands	Year ended 31 December 2010	related parties	Year ended 31 December 2009	related parties
CASH AND CASH EQUIVALENTS	**43.741**		**54.954**	
OPERATING ACTIVITIES				
Net profit	20.730	(1.265)	12.038	(2.040)
Amortization	975		994	
Movements in intangible assets due to arbitration	3.152		0	
Investment income	0		79	
Net financial income	(350)		(462)	
Income tax	12.622		7.357	
Net movement in provision for employee and retirement benefits	78		111	
Net movement in provisions for liabilities and charges	185		(6)	
Cash flow from operating activities before movements in working capital	**37.392**	**(1.265)**	**20.111**	**(2.040)**
(Increase) decrease in trade and other receivables	(12.919)	184	(16.435)	(394)
Increase (decrease) in trade and other payables	4.766	2.856	9.820	(2.027)
(Increase) decrease in other assets	0		0	
(Increase) decrease in inventory	1.359		143	
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	**30.598**	**1.775**	**13.639**	**(4.461)**
Income tax paid	(8.052)		(10.194)	
Financial charges paid	(21)		(268)	
NET CASH FLOW FROM OPERATING ACTIVITIES (A)	**22.525**	**1.775**	**3.177**	**(4.461)**
INVESTMENT ACTIVITIES				
(Acquisitions) / net disposals in PPE and intangible assets	(422)		(166)	
Interest and financial income received	371		851	
Dividends received from associates	0		0	
Net increase in other non-current assets	19		4	
NET CASH USED IN INVESTMENT ACTIVITIES (B)	**(32)**	**0**	**689**	**0**
FINANCING ACTIVITIES				
Dividends paid	(15.515)		(15.452)	
(Purchase) disposal of treasury shares	0		372	
(Increase) decrease in restricted bank deposits	7.543		6.526	
New loan finance (loan repaid)	0		(6.526)	
Other changes in equity	(2)		1	
NET CASH USED IN FINANCING ACTIVITIES (C)	**(7.974)**	**0**	**(15.079)**	**0**
NET CASH FLOW OF THE YEAR (A)+(B)+(C)	**14.519**	**1.775**	**(11.213)**	**(4.461)**
CLOSING CASH AND CASH EQUIVALENTS	**58.260**		**43.741**	

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Main activities

Cairo Communication S.p.A. (the Parent Company) is a joint-stock company listed in the Business Register of Milan, Italy.

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

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

Figures are shown in thousands of Euro.

Basis of preparation

Structure, form and content of the consolidated financial statements

The consolidated financial statements as at 31 December 2010 have been prepared in accordance with IFRS international accounting standards issued by the International Accounting Standard Board ("IASB") and approved by the European Union, as well as with the provisions arising from art. 9 of Legislative Decree no. 38/2005. The term IFRS is used to mean all the international accounting standards ("IAS") and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC").

The **income statement** is presented according to costs by their nature, highlighting intermediate operating results and pre-tax results, and in order to allow a better measure of normal operating management performance. Furthermore, cost and revenue components deriving from events or transactions which, by their nature or size are considered non-recurring, are also separately identified in the notes.

These transactions can also be defined according to the definition of significant non-recurring events and transactions held in Consob Communication No. 6064293 of 28 July 2006, which differs from the definition of "atypical and/or unusual transactions" held in the in the same Communication, under which atypical and/or unusual transactions are those which, owing to their significance/relevance, nature of the counter-parties, object of the transaction, procedure to establish the transfer price and timing of the event (proximity to year end), may give rise to doubts regarding accuracy and completeness of the information in the financial statements, or to conflicts of interest, or to the preservation of company equity, or to the protection of minority shareholders.

The economic effect of discontinued operations is shown in a single line of the income statement entitled "Net profit/loss from discontinued operations", according to IFRS 5.

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

- profit and loss that could be directly charged to equity (for instance actuarial loss generated by the evaluation of defined-benefit plans),
- the effects of the evaluation of derivative instruments hedging future cash flows,
- the effects of the evaluation of investments available for sale,
- the effects arising from any change in accounting standards.

The **balance sheet** is presented according to the allocation of assets and liabilities between current and non-current, indicating, on two separate lines, "Assets held for sale" and "Liabilities of operations to be sold or discontinued", according to IFRS 5. Specifically, an asset or a liability is classified as current when it satisfies one of the following criteria:

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

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

The **cash flow statement** has been prepared applying the indirect method in which the operating result is adjusted for the effect of transactions of a non-monetary nature, for whatever deferral or accrual of previous or future operating receipts or payments and for elements of revenues or costs connected to funding fluctuations derived from investment or financial activities. Income and expenses relating to medium or long-term financial operations and those relating to hedging instruments, and dividends paid are included in financing activities.

The **statement of change in equity** shows the variations arising in equity relating to:

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

and separately income and expenses defined as *"variations generated by transactions with non-owners"*, also shown in the consolidated statement of comprehensive income.

Furthermore, it should be noted that, in order to comply with Consob Resolution No. 15519 of 27 July 2006, "Report Formats", specific formats have been added on the consolidated income statement, consolidated balance sheet and consolidated cash flow statement highlighting significant related party transactions in order not to compromise their overall readability.

The consolidated financial statements are prepared on a going concern basis. The Cairo Communication Group has evaluated that even in the presence of a difficult economic and financial period, significant uncertainties do not exist (as defined by paragraphs 25 and 26 of IAS 1) related to the continuity of operations in terms of both the profitability outlook of Group companies and of the organization of its capital structure.

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

Consolidation principles and scope

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

The consolidated financial statements as at 31 December 2010 include the financial statements of the Parent Company Cairo Communication S.p.A. and the following direct or indirect subsidiaries.

Company	Head office	Share capital as at 31/12/10	% Shareholding	Year end	Business	Consolidation method
Cairo Communication S.p.A.	Milan	4,074		31/12	Publishing	Full
Cairo Editore S.p.A.	Milan	1,043	99.95	31/12	Publishing	Full
Diellesei S.p.A. in liquidation	Milan	2.000	60	31/12	In liquidation	Full re assets and liabilities (*)
Cairo Due S.r.l.	Milan	47	100	31/12	Advertising	Full
Cairo Pubblicità S.p.A.	Milan	2,818	100	31/12	Advertising	Full
Cairo Publishing S.r.l.	Milan	10	100	31/12	Publishing	Full
Il Trovatore S.r.l.	Milan	25	80	31/12	Internet	Full
Edizioni Anabasi S.r.l.	Milan	10	99.95	31/12	Publishing	Full

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

As in prior years, the financial statements of the subsidiary Cairo Sport S.r.l. have not been consolidated as the company is not significant. No changes were reported in the consolidation scope versus the consolidated statements as at 31 December 2009.

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

The "full consolidation" method has been used for the consolidation of subsidiary financial statements, assuming the total of assets, liabilities, income and expenses of individual companies, regardless of the share owned, eliminating the book value of the Parent Company's equity stake against the subsidiary's equity.

Minority interests in consolidated subsidiaries are disclosed separately to Group equity. This stake is calculated on the basis of the percentage stake of the fair value of the asset or liability on its original purchase date and subsequent movements in equity after such date. Starting from the 2010 financial year, losses attributable to minority shareholders exceeding their share of the equity are fully attributed to them. Until the 2009 financial year, such losses were attributable instead to Group equity, with the exception of cases in which the minority stakeholder has a binding obligation and is able to make further investments to cover the losses. Specifically, the minority interest in Diellesei in liquidation has been determined taking into account that during the 2005/2006 financial year, the minority shareholder, UT Communications S.p.A. had completed its contractual commitment relating to share capital increases and/or loss coverage.

Profits and losses, even when insignificant, not yet realized derived from transactions between companies included in the consolidation scope are eliminated, as are all significant transactions which give rise to inter-Group receivables and payables, income and expense. These adjustments, like other consolidation adjustments, where applicable, take account of the related deferred tax effect.

Business combinations

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

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

Goodwill arising from the purchase is recorded as an asset and is initially valued at cost, corresponding to that portion of the purchase price paid by the Group exceeding the net book value of the net assets of a subsidiary that it has acquired, which was not allocated to specific assets, liabilities and identifiable contingent liabilities of the subsidiary. If the Group share of the current book values of the assets, liabilities and identifiable contingent liabilities of the subsidiary exceeds the purchase price, the excess is immediately taken to the income statement.

Minority stakeholders' interest in the purchased company can be initially measured at fair value or valued in equal proportion to their share of net assets for the purchased company. The measurement method is chosen based on type of transaction.

Minority interests, investments in inactive subsidiaries and investments in subsidiaries of small value are valued using the cost method, written down with any losses in value.

Investments

Associates

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

The financial results, assets and liabilities of associates are reported in the consolidated financial statements using the equity method.

Using this method, investments in associates are recorded in the balance sheet at cost, adjusted for movements since the purchase of the investment, net of any decrease in value of individual investments. Any losses exceeding the Group share in the company are not recorded, unless the Group has a commitment relating to loss coverage. The excess of purchase costs against the Group share of current book value of assets, liabilities and identifiable contingent liabilities of the associate at the date of purchase is recorded as goodwill. Goodwill is included in the value of the investment and is subject to impairment tests. If the purchase costs are lower than the Group share of current book value of assets, liabilities and identifiable contingent liabilities of the associate at the date of purchase, this is taken to the income statement of the financial year in which the purchase took place.

With regard to transactions between Group companies and associates, unrealized profits and losses are eliminated in equal proportion to the Group stake in the associate, with the exception of situations where unrealized losses constitute evidence of a decline in value of the business acquired.

Other investments (available for sale)

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

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

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

Goodwill

Acquisition goodwill corresponds to that portion of the purchase price paid by the Group that exceeds the Group share of the fair value of the net assets, liabilities and identifiable contingent liabilities of a subsidiary that it has acquired, at the date of purchase. Goodwill is recorded as an asset and is not subject to amortization. It is reviewed annually to record any eventual decline in value. Any losses in value are recorded in the income statement and are not subsequently restored. In the absence of a standard or a specific interpretation on the subject, in the case of the acquisition of a minority stake in an existing subsidiary, made up to 31 December 2009, the difference between the cost of acquisition and the net book value of the assets and liabilities acquired is recorded as goodwill.

Acquisition goodwill deriving from purchases carried out before transition to IFRS is maintained at the values derived from the application of Italian accounting principles at that date and is subject to impairment tests from that date.

Revenues and cost recognition

Revenues and costs and income and expenses are recognized according to their business nature and on an accruals basis, specifically:

- Revenues are recorded according to the probability with which the company will enjoy their economic benefits and in the extent to which their value can be reliably determined. Revenues are stated net of any ultimate adjustments.
- Advertising revenue is recognized at the moment the advertisement is broadcast or published. Revenue from publications is recognized at the date of publication.
- Revenue from the sale of magazine subscriptions is recognized on the basis of the magazines published and distributed during the period.
- Pre-publication and launch costs are expensed to the income statement when incurred.
- Interest payable and receivable is recorded on an accruals basis. Dividends are accounted for when the right of the shareholders to receive the payment is established.
- The rebilling of leasehold costs is recorded against the cost to which they relate.

Taxes

Tax for the year corresponds to the sum of current and deferred taxes.

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

The tax liability is calculated using the rates in force at the balance date.

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

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

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

Each company that adheres to the national tax consolidation agreement transfers its taxable profit or loss to the consolidating company - for any such taxable profit reported by a subsidiary, UT Communications S.p.A. records a credit equal to the amount of IRES payable – for any such taxable loss, reported by a subsidiary, UT Communications S.p.A. records a charge equal to IRES due on the loss that has been contractually transferred to Group level.

Deferred financial liabilities are generally recognized for all taxable timing differences, while deferred tax assets are recorded to the extent of the probability that there will be future taxable profits which will allow for the utilization of the different deductible timing differences. Deferred taxes are calculated on the basis of the tax rates that are foreseen will be in force at the moment of realization of the asset or discharge of the liability, based on tax legislation in force at the date of the financial statements. Where relevant, the effects of any changes in tax rate or tax legislation after the date of the financial statements are disclosed in the notes. Deferred financial assets and liabilities are reported at their net value when there is a legal right to compensate current taxes payable and receivable and when the taxes relate to the same taxation authority.

Employee termination benefit and severance pay provision

The nature of the provision for employee termination benefits and severance, mandatory for all Italian companies according to art. 2120 of the Civil Code, is one of deferred remuneration and is directly related to the employee's length of service in the company, and to the employee's actual remuneration received during their period of service.

From 1 January 2007, the Finance Law and subsequent decrees have introduced important changes to the nature of the provision for employee termination benefits and severance, including the employee's choice of where the retirement benefits or severance amount due to them should be invested (into complimentary pension funds or into the "Treasury Fund" managed by INPS (the Italian Social Security system). As a result, amounts due to INPS and amounts due to supplementary pension funds are shown as "Defined Contribution Plans", whilst amounts invested in the employee termination benefits and severance fund up to 31 December 2006, in accordance with IAS 19, maintain the description of "Defined Benefit Plans".

Non-current assets

Intangible assets

Costs, including ancillary costs incurred for the acquisition of non-physical resources, are reported under intangible assets when the cost is quantifiable and the asset is clearly identifiable and controlled by the Group, and where the use of the asset will generate probable future benefits to the Group. These are valued at their acquisition or production price, including related costs – in the extent to which they are considered to have a finite life – and they are amortized to reflect their remaining useful economic lives. The amortization periods of intangible assets of various types are as follows:

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

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

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

Property, plant and equipment

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

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

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

Property	3%
General equipment	20%
Motor vehicles	20%-25%
Plant and machinery	10%
Office equipment and furniture	10%-12%
Electronic equipment	20%

Land is not subject to amortization.

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

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

The remaining useful lives of assets are reviewed annually and if incremental maintenance or other work has been carried out which changes the remaining useful life of the investment, these are adjusted accordingly.

Incremental and maintenance costs producing a significant and tangible increase in the productive capacity or security of assets, or lengthening their remaining useful life, are capitalized and depreciated. Ordinary maintenance costs are taken directly to the income statement.

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

Decreases in value of PPE and intangible assets

At least once a year, the Group reviews the book value of intangible assets with an indefinite useful life, and of investments and publication titles, and whenever there are potential signs of a decrease in value in PPE and intangible assets with a finite useful life, in order to determine whether such assets may have suffered any decrease in value. When such signs are present, the book value of the asset is reduced to reflect its realizable value. The realizable value of an asset is the greater of its fair value less sale costs, and its value in use. The fair value of a listed investment is determined according to its market price on the reference date, in case the Stock Market price is considered to represent the effective value of the investment. In the absence of market values, valuation estimates and methods are applied based on data which is in any case evident on the market. To determine an asset's value in use, the Group calculates the present value of future estimated cash flows, inclusive of tax, by applying a pre-tax discount rate which reflects the current market valuation, including the time value of money and the specific risks inherent to the asset.

Excluding goodwill, when the loss in the value of an asset no longer applies or is reduced, the book value of the asset is increased to the new estimated realizable value, and may not exceed the value which would have been determined had no loss in value been recognized.

Current assets and liabilities

Inventory

Inventory is valued at the lower of the purchase or production cost, including all directly attributable expenses, net of all discounts and credits, calculated using the weighted average cost method, and its estimated net realizable value. The valuation of estimated net realizable value takes into account potential future production and direct sales costs. Inventory values are adjusted for obsolete and slow moving inventory through a specific provision made to reflect their net realizable value.

Receivables

Trade and other receivables are recorded at estimated net realizable value.

Investments

Investments are recognized and written off in the financial statements on the basis of their trading date. They are initially valued at cost, including all direct expenses associated with their acquisition.

At the date of subsequent financial statements, investments that the Group is able to and intends to keep until maturity (shares held until maturity) are reported at their amortized cost, net of write-downs to reflect decrease in value.

Other investments which the Group does not intend to keep until maturity are classified as held for sale or available for sale and are valued at the end of each period at their fair value. When investments are held for trading, profits and losses derived from their fair value movements are taken to the income statement for the year. When investments are available for sale, however, profits and losses derived from their movements are taken to equity until they are sold or have decreased in value; in this case the profits or losses previously disclosed in equity are taken to the income statement for the year.

Valuations are regularly carried out to verify whether there is any objective evidence that an investment, whether taken individually or as a group of investments, may have suffered a loss in value. In the existence of such evidence, losses are recorded in the income statement for the year.

Cash and cash equivalents

This item comprises cash, bank deposits which can be withdrawn on demand, and other short-term high liquidity investments which are easily convertible to cash and are not subject to risk of significant variation in value.

Borrowings, bank loans and bank overdrafts

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

Trade payables

These are recorded at nominal value.

Equity

Treasury shares

Treasury shares are valued at historic cost and are recorded in equity. The result of the subsequent sale of treasury shares is reported as a movement in equity.

Dividends paid

Dividends payable are recorded as a movement in equity in the year they are approved by the Shareholders' Meeting.

Stock option plans

For "equity settled" stock option plans, the fair value of the option, set at the moment of its allocation, is reported among personnel costs as the stock option plan matures, with a corresponding entry to the relevant equity reserve.

Provisions for liabilities and charges

Provisions for liabilities and charges are recorded in the financial statements when the Group has a legal or implicit obligation resulting from a past event and for which a probability exists for the fulfillment of that obligation. The provisions reflect the best estimate based on information currently available to the Directors of the costs required to fulfill the obligation at the financial statements date, and are shown at the present value when the effect is significant.

Use of estimates

The preparation of the financial statements and their related notes, in application of the IFRS international accounting standards, requires that the Group carry out certain estimates and assumptions which affect the value of assets and liabilities and the information relating to assets and contingent liabilities at the financial statements date. The estimates and assumptions used are based on experience and on other factors considered relevant. The final results could differ from these estimates. The estimates mainly relate to provisions for risks relating to receivables, obsolete inventory, publishing returns, investment valuations, amortization, asset write-downs, taxation, provisions for liabilities and charges, and contingent liabilities.

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

The items most susceptible to these uncertainties are provisions for bad debts, inventory write-downs, non-current assets (tangible and intangible assets and investments), deferred tax assets and the provisions for liabilities and charges.

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

Provision for bad debts

The provision for bad debts reflects management’s estimate regarding the losses relating to the portfolio of receivables due by end customers. The provision for bad debts is based on losses expected by the Group, according to past experience for similar receivables, current and past due dates, losses and receipts arising from the careful monitoring of the quality of receivables and from projections on market and economic conditions.

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

Deferred tax assets

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

Realizable value of non-current assets (including goodwill)

Non-current assets include property, plant and equipment, intangible assets (including goodwill), investments and other financial assets. Management periodically reviews the book values of non-current assets held and used, and those of assets destined for sale, as and when circumstances require such revision. This is performed by the comparison of the book value of the asset and the greater of the fair value, net of sales costs, and the asset's value in use. The fair value of listed instruments is determined according to market prices. In the absence of a market or should the Stock Market price not be considered representative of the real value of the investment, estimates and valuations are however made based on data available on the market. The value in use is determined based on the estimate of expected cash flows from the use or sale of the asset and is discounted to its present value using appropriate discount rates. When the book value of a non-current asset has suffered a loss in value, the Group recognizes a write-down equal to the difference between the greater of the book value of the asset and its realizable value from its use or sale, as determined according to the Group's most recent plans.

For the preparation of the consolidated financial statements as at 31 December 2010, and in particular in the performance of impairment tests on intangible and tangible assets, the different segments of the Group have taken into account the expected 2011 performance, whose assumptions and results are in line with the information disclosed in the section on "*significant events following year end and management outlook*". In addition, for financial periods subsequent to the plan, necessary adjustments have been cautiously made to take account of the deep market changes resulting from the current economic and financial crisis. There was no need for any significant impairment on the basis of the plan adjusted in this way.

Provisions for liabilities and charges

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

Risk management

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

Accounting standards, amendments and interpretations applied from 1 January 2010

The following accounting standards, amendments and interpretations were applied for the first time by the Group starting from 1 January 2010:

- On 10 January 2008, the IASB issued an updated version of IFRS 3 - *Business Combinations*, and amended IAS 27 - *Consolidated and Separate Financial Statements*. The main modifications to IFRS 3, in the case of step acquisitions, relate to the elimination of the requirement to measure individual assets and liabilities of a subsidiary at fair value at the date of each subsequent acquisition. In such cases, goodwill will be determined as the difference between the value of the investment immediately prior to the acquisition, the transaction payment and the value of the net assets acquired. Furthermore, when the company does not acquire 100% of the investment, the minority interest share in equity may be measured at fair value, or according to the method previously prescribed by IFRS 3. The revised version of the standard also requires that all expenses associated with a business combination be recorded in the income statement and the recognition of all liabilities payable subject to certain conditions at the date of acquisition. On the other hand, in the modification to IAS 27, the IASB has established that changes in the share of ownership, whether they be in terms of acquisitions or of the disposal of shares which do not result in a loss of control, be treated as equity transactions and therefore should be recorded in equity. As a result, no value adjustments will be made to goodwill and gains or losses entered in the income statement. Furthermore, when a parent company loses control, but still continues to hold an interest in a subsidiary, the interest must be measured according to fair value and any gains or losses arising from the loss of control must be entered in the income statement. The amendment to IAS 27 prescribes that all losses attributable to minority shareholders be allocated to non-controlling interests, even if they exceed the non-controlling interest's share of equity in the subsidiary.
- As part of the *Improvement 2008* process conducted by IASB, the change to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* defines that if a company is involved in a disposal plan that will result in the loss of control of a subsidiary, then all the assets and liabilities of that subsidiary must be reclassified in assets held for sale, even if, following the sale, the company will still hold a minority stake in the investment.
- IFRS 5 – *Non-current assets available for sale and discontinued operations*: the amendment has clarified that IFRS 5 and other IFRS referring specifically to non-current assets (or groups of assets) classified as available for sale or as discontinued operations establish all disclosure requirements for these assets or operations.
- IFRS 8 – *Operating segments*: this amendment requires companies to provide the value of total assets for each reportable segment, if such value is provided regularly by the chief operating decision maker. This information was previously required even in the absence of such condition.
- IAS 1 – *Presentation of financial statements:* this amendment clarifies that when a company does not have an unconditional right to defer settlement of a liability for at least 12 months after the

reporting period, the liability should be classified as current, even with an option of the counterparty that could result in its settlement by the issue of equity instruments.

- IAS 7 – *Cash flow statement*: the amendment requires that only cash flows deriving from expenditures that result in a recognized asset in the statement of financial position are eligible for classification as investing activities, whereas cash flows deriving from expenditures that do not result in a recognized asset (such as promotional and advertising costs or costs for staff training) must be classified as deriving from operating activities.
- IAS 36 - *Impairment of assets*: the amendment requires that each operating unit or group of operating units to which goodwill is allocated to test for impairment must not be larger than an operating segment determined in accordance with paragraph 5 of IFRS 8, before aggregation allowed by paragraph 12 of the IFRS, based upon similar economic characteristics or other elements of similitude.
- IAS 38 - *Intangible assets*: the revision of IFRS 3 in 2008 requires that the fair value of an intangible asset acquired in a business combination can be measured reliably if it is separable or has arisen from contractual or legal rights. IAS 38 was subsequently amended to recognize this change to IFRS 3. The amendment in question has also clarified the techniques commonly used to measure the fair value of intangible assets that have no reference to an active market; in particular, such techniques include, as an alternative, the estimate of discounted net cash flows originated from the asset, the estimate of costs saved by the company by owning the asset and by not having to license it from another party, or the costs required to recreate or replace it (as in the cost method).

The following amendments and interpretations, applicable as from 1 January 2010, were considered irrelevant for the Group as they regard circumstances that do not apply to the Group as at the date of the current consolidated financial statements:

- IFRIC 17 – *Distribution of non-cash assets*, issued on November 27, 2008;
- IFRIC 18 – *Transfers of assets from customers*, issued on 29 January 2009;
- Amendments to IAS 28 – *Investments in associates* and to IAS 31 – *Investments in joint ventures*, as a result of the changes made to IAS 27, issued on 10 January 2008.
- Amendment to IFRS 2 – *Share-based payments*: issued on 16 April 2009;
- Amendment to IAS 17 – *Leasing*, issued on 16 April 2009;
- Amendment to IFRIC 9 – *Reassessment of embedded derivatives* and to IAS 39 - *Financial Instruments*, issued on 12 March 2009;
- Amendment to IFRS 2 – *Share-based payments: Group cash-settled share-based payment transactions*, issued in June 2009;
- Improvement to IAS 39 – *Financial instruments: recognition and measurement.*

Accounting standards, amendments and interpretations yet to apply and not adopted early by the Group

On 4 November 2009, IASB issued a revised version of IAS 24 – *Related party disclosures*, simplifying the nature of information required for transactions with government-controlled related parties and clarifies the definition of related parties. The standard is applicable as from 1 January 2011.

On 12 November 2009, IASB published the IFRS 9 – *Financial instruments on the recognition and measurement of financial assets* applicable as from 1 January 2013, amended on 28 October 2010. The publication is the opening part of a process that aims to overhaul IAS 39. The new standard uses a single approach and is based on how a company manages its financial instruments and the contract cash flows of the financial assets to determine the measurement methodology replacing IAS 39. For financial liabilities, instead, the main change made regards accounting of fair value changes of a financial liability designated as financial liability measured at fair value in profit and loss, in the event these are attributable to changes in the credit risk of the liability. Based on this new principle, the changes must be presented in other comprehensive income. As at the date of the present financial statements, the relevant EU bodies have yet to complete the harmonization process for its application.

On 6 May 2010, IASB issued a series of changes to the IFRS ("improvements") applicable as from 1 January 2011; the following are those indicated by IASB as variations involving changes in the presentation, recognition and measurement of items, segregating those that will involve mere changes in terminology or editorial changes with a minimum accounting effect, or those that affect standards or interpretations that are not applied by the Group:

- IFRS 3 (2008) – *Business combinations*: the amendment clarifies that the components of non-controlling interests that do not entitle owners to receive a proportionate share of the subsidiary's net assets must be measured at fair value or according to the requirements of applicable accounting standards. So, for instance, a stock option plan granted to employees must be measured, in the event of business combination, in accordance with the rules of IFRS 2 and the equity share of a convertible debt instrument must be measured in accordance with IAS 32. Furthermore, the Board has discussed the share-based payment plans that are replaced as part of a business combination, by adding specific guidance to clarify the accounting treatment.
- IFRS 7 - *Financial instruments: improved disclosure*: the changes emphasize interaction between qualitative and quantitative disclosures required by the principle regarding the nature and extent of risks arising from financial instruments. This should help users of financial statements to evaluate an entity's exposure to risks to financial instruments. Disclosure has been deleted for

financial assets past due which have been renegotiated or impaired and for information regarding the fair value of collaterals.

- IAS 1 – *Presentation of financial statements*: the change requires an entity to provide a reconciliation of changes in each component of equity in the notes to the financial statements or in the financial statements.
- *significant events and transactions to disclose in interim financial reports drawn up in accordance with IAS 34:* emphasis is placed on the principle under which interim financial reports should update the relevant information regarding significant events and transactions held in the annual financial reports; furthermore, indication is given on the circumstances when information regarding financial instruments and their fair value must be disclosed in interim reports.

The changes are expected to come into effect from financial years starting from 1 January 2011. As at the date of the present financial statements, the relevant EU bodies have yet to complete the harmonization process for application of the amendments.

On 7 October 2010, IASB issued several amendments to principle IFRS 7 – *Financial instruments: improved disclosure*, to be applied for financial periods starting from or after 1 July 2011. The amendments were issued to improve the understanding of transfers of financial assets and the possible effects arising from risks associated with the continuing involvement of the entity that has transferred such assets. The amendments require further information in the event a disproportionate amount of transfer transactions is undertaken around the end of the year. As at the date of the present financial statements, the relevant EU bodies have yet to complete the harmonization process for application of the amendments.

The following amendments and interpretations, <u>not yet applicable</u>, are deemed irrelevant for the Group as they govern circumstances that do not appear as at the date of the present financial statements:

- Amendment to IAS 32 - *Financial instruments: Presentation* issued on 8 October 2009 and applicable retrospectively as from 1 January 2011;
- IFRIC 14 – *Prepayments of a minimum funding requirement*, issued on 26 November 2009, and applicable as from 1 January 2011;
- IFRIC 19 – *Extinguishing financial liabilities with equity instruments*, issued on 26 November 2009, and applicable as from 1 January 2011.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

1. Net revenues

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

(€ thousands)	**Consolidated financial statements as at 31/12/2010**	**Consolidated financial statements as at 31/12/2009**
Gross operating revenues	271,456	251,260
Advertising agency discounts	(27,896)	(24,602)
Net sales	**243,560**	**226,658**

Sales are realized exclusively in Italy and an analysis by geographic region is pointless. An analysis of sales by segment of activity is provided in note 14.

Gross operating revenues can be analyzed as follows:

Description	**Consolidated financial statements as at 31/12/2010**	**Consolidated financial statements as at 31/12/2009**
TV advertising	155,058	130,381
Print media advertising	39,092	40,722
Stadium signage and electronic billboards	1,571	2,813
Internet advertising	1,120	974
Magazine over-the-counter sales	70,978	72,438
Subscriptions	2,883	2,953
Books and catalogues	1,970	2,264
VAT relating to publications	(1,303)	(1,333)
Other	87	48
Total gross operating revenues	**271,456**	**251,260**

As illustrated more in detail in the Directors' Report on Management, in 2010:

- TV advertising revenues (including La7, La7d, Sportitalia and Dahlia and theme channels Cartoon Network, Boomerang, and CNN), totaling Euro 155.1 million, were up 18.9% overall versus 2009. Specifically, in 2010 advertising revenues on La7, amounting to approximately Euro 126.4 million, greatly exceeded the minimum annual contractual target of Euro 120 million, rising by 4.6% versus 2009, while advertising revenues on the unencrypted digital channel La7d, amounting to approximately Euro 6 million, confirmed the contractual target of 2010. The good results of TV advertising revenues were achieved thanks also to the other new contracts signed at end 2009 (Sportitalia and Dahlia) and in 2010 (La7d);

- sales revenues from Group publications, amounting to Euro 71 million, were down 2% versus 2009 (up 2.8% versus 2008), due also to the lower amount of issues of the two weeklies "Dipiù TV" and "TV Mia" (52 instead of 53), causing a loss in revenues over the period of approximately Euro 0.4 million, and to the cut price of three issues of "Dipiù TV" (loss of approximately Euro 0.6 million) and of several issues (loss of approximately 0.1 million) of "Diva e Donna";
- gross advertising revenues, which reached Euro 38.1 million, were partly affected by the lower amount of issues of the two weeklies, shedding 3.8% (versus the -5.4% of the magazine advertising market in 2010, *ACNielsen*).

***

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

Other operating revenues

Other operating revenues can be analyzed as follows:

Description	Consolidated financial statements as at 31/12/2010	Consolidated financial statements as at 31/12/2009
Paper	1,136	381
Re-billed technical costs	44	30
Other revenues	1,691	1,243
Total other operating revenues	**2,871**	**1,654**

"Other" mainly includes contingent assets and other revenues not considered as operating revenues.

Non-recurring income from Cairo-Telepiù arbitration

In 2010, under the arbitration award issued on 27 January 2010, the 10-year advertising concession contract signed in May 1998 between Cairo TV and Telepiù S.r.l. was terminated for act and fault of Telepiù.

Telepiù was ordered to pay damages to Cairo Communication (as acquirer of Cairo TV) for the amount of Euro 11.7 million (the award also acknowledged payment of Euro 1 million for damages to Telepiù), as well as approximately Euro 0.8 million for defence and arbitration costs.

The outcome of the arbitration benefited the consolidated income statement of the year, netted against those assets related to the Telepiù-Cairo TV advertising concession contract entered in the consolidated financial statements as at 31 December 2009, specifically:

- other receivables of approximately Euro 1.6 million, referable to the Telepiù's share of loss accrued on receivables from advertising clients, under the advertising concession contract (which provided for a share of loss to be debited to Telepiù) the amount of which was absorbed in the damages liquidated to Cairo as a result of the arbitration,
- the residual consolidation difference, equal to Euro 3.1 million net of pertaining amortization accumulated as at 30 June 2004, as related to the difference between purchase price in 1998 of the whole corporate capital of Cairo TV and its equity upon date of acquisition, attributed in the consolidated accounts to the exclusive ten-year advertising concession contract on the Telepiù analogue and digital channels at that times, and shown as intangible assets under "*concessions, licenses and trademarks*"; recognition in the income statement of the equivalent amount of such consolidation difference did not impact on tax for the period as it had no tax and financial relevance.

***

3. Inventory movements

Inventory movements amounted to a negative Euro 35 thousand (a negative Euro 165 thousand as at 31 December 2009), and arise from the use of the magazine sales products during the ordinary course of business relating to Cairo Editore S.p.A. and Cairo Publishing S.r.l.

***

4. Materials and supplies

Materials and supplies expenses arise from the activities of Cairo Editore and Cairo Publishing, and include the main items:

Description	Consolidated financial statements as at 31/12/2010	Consolidated financial statements as at 31/12/2009
Paper	22,603	28,999
Equipment and various materials	1,317	1,359
Inventory movements in paper, equipment and various materials	1,323	(22)
Total materials and supplies	**25,243**	**30,336**

The sharp drop in paper costs is a result of better purchase terms negotiated with providers for 2010 versus 2009 and, only to a smaller extent, to the rethinking of a number of technical features (paper weight and type) without affecting the high quality of the publications.

***

5. Costs for services

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

Description	Consolidated financial statements as at 31/12/2010	Consolidated financial statements as at 31/12/2009
Publishers' fees	108,476	94,353
Intermediation compensation	3,763	2,228
Agents' commissions	6,833	5,907
Technical costs	399	539
Administrative costs	5,425	4,328
Consulting and collaboration	12,406	13,696
Subcontractors' fees	18,500	19,235
Advertising and promotion	5,333	4,664
Organizational and general costs	4,732	4,794
Total costs for services	**165,867**	**149,744**

The variation in costs for publishers' fees is in line with the growth in TV advertising revenues. Such increase is basically related to "intermediation compensation" and "agents' commissions".

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

The variation in "consulting and collaboration" and "subcontractors' fees" is ascribable to the cost-cutting measures mentioned in the Directors' Report on Management, implemented starting from 2008 to increase the effectiveness and efficiency of production, publishing and circulation processes, which have allowed the Group to achieve savings versus the previous year.

***

6. Rental expenses

This item amounted to Euro 2,422 thousand (Euro 2,472 thousand as at 31 December 2009) and mainly includes rental fees paid for property, fees for the hire of office equipment and royalties for authors' rights.

***

7. Personnel costs

These can be analyzed as follows:

Description	Consolidated financial statements as at 31/12/2010	Consolidated financial statements as at 31/12/2009
Salaries and wages	16,166	16,067
Social contributions	4,910	4,910
Provision for retirement benefits	645	707
Other personnel costs	32	-
Total personnel costs	**21,753**	**21,684**

***

8. Amortization, depreciation, write-downs and provisions

These can be analyzed as follows:

Description	Consolidated financial statements as at 31/12/2010	Consolidated financial statements as at 31/12/2009
Intangible asset amortization	567	531
Property, plant and equipment depreciation	406	463
Increase in provision for bad debts	2,641	2,688
Increase in provisions for liabilities and charges	124	113
Total amortization, depreciation, write-downs and provisions	**3,738**	**3,795**

***

9. Other operating expenses

These can be analyzed as follows:

Description	Consolidated financial statements as at 31/12/2010	Consolidated financial statements as at 31/12/2009
Taxes deductible and non-deductible paid during the year	164	145
Contingent liabilities	523	592
Other	391	360
Total other operating expenses	**1,078**	**1,097**

***

10. Investment income

This item, equal to Euro 1 thousand, refers to coverage of loss for Cairo Sport.

As at 31 December 2009, the item, equal to a loss of Euro 79 thousand, referred to the effects arising from the equity method of evaluation in 2009 of the investment in Dmail Group S.p.A., before reclassification, as at 1 October 2009, from “associate companies” to “other investments” (available for sale), with a resulting fair value measurement at each year end.

***

11. Net financial income

This item refers to financial income totaling Euro 458 thousand (Euro 729 thousand as at 31 December 2009), net of charges of Euro 109 thousand (Euro 103 thousand as at 31 December 2009), analyzed as follows:

Description	**Consolidated financial statements as at 31/12/2010**	**Consolidated financial statements as at 31/12/2009**
Bank and deposit interest income	441	661
Other	17	68
Total financial income	**458**	**729**
Bank interest expenses	(4)	(26)
Other	(105)	(77)
Total financial expenses	**(109)**	**(103)**
Net financial income	**349**	**626**

Interest income includes interest related to time deposits in current accounts and to treasury bank accounts used to employ liquidity. The variation in net financial income is mainly ascribable to the drop in interest rates versus 2009 (0.57% Euribor average in 2010 versus 0.93% in 2009).

***

12. Income tax

This item can be analyzed as follows:

Description	**Consolidated financial statements as at 31/12/2010**	**Consolidated financial statements as at 31/12/2009**
IRES for the year	10,091	6,170
IRAP for the year	2,355	1,640
Prepaid and deferred tax	194	(409)
Total income tax	**12,640**	**7,401**

In accordance with relevant accounting standards, it was considered appropriate to recognize the amount of income tax prepaid by a number of Cairo Communication Group companies relating mainly to the provision for accruals, but having deferred tax deductibility (provisions for bad debts and provisions for liabilities and charges).

The reconciliation of tax liabilities and theoretical income tax charge can be analyzed as follows:

	Consolidated financial statements as at 31/12/2010	Consolidated financial statements as at 31/12/2009
Pre-tax profit	**33,424**	**19,566**
Theoretical income tax charge (27.5%)	**9,191**	**5,381**
Permanent tax variations	1,282	380
Net effect of tax redemption of reserves from merger of Cairo Editore-Editoriale Giorgio Mondadori	(190)	-
Irap	2,357	1,640
Income tax	**12,640**	**7,401**

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

***

13. Net profit / (loss) from discontinued operations

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

Description	Consolidated financial statements as at 31/12/2010	Consolidated financial statements as at 31/12/2009
Other operating revenues	121	79
Costs for services	(59)	(32)
Personnel costs	(48)	-
Amortization, depreciation, write-downs and provisions	(100)	(53)
Operating profit (EBIT)	**(86)**	**(6)**
Net financial income / (expenses)	1	(165)
Profit / (loss) before tax	**(85)**	**(171)**
Income tax	18	44
Net profit / (loss) from discontinued operations	**(67)**	**(127)**

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

Description	Consolidated financial statements as at 31/12/2010	Consolidated financial statements as at 31/12/2009
Net cash flow from operating activities and the liquidation process	(258)	176
Net cash flow from investment activities	-	-
Net cash flow generated (absorbed) by financing activities	-	(6,652)
Net decrease for the year	**(258)**	**(6,476)**

***

14. Segment reporting

For a clearer understanding of the Group's economic performance, the analysis is focused on results achieved during the year by the various business segments, which have been identified, in compliance with IFRS 8 – *Operating segments*, based on internal reporting which is regularly examined by the directors. Compliance with IFRS 8 resulted in the same operating segments previously falling under IAS 14 – *Segment Reporting*.

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

- **publishing**, the Group operates as a publisher of magazines and books through its subsidiaries Cairo Editore - which incorporated in 2009 Editoriale Giorgio Mondadori and publishes the weeklies "Settimanale DIPIU'", "DIPIU' TV", "Diva e Donna", "TV Mia" and supplements "Settimanale DIPIU' e DIPIU'TV Cucina e Stellare" and monthlies "For Men Magazine", "Natural Style", Bell'Italia", "Bell'Europa", "In Viaggio", "Airone", "Gardenia", "Arte" and "Antiquariato" - and Cairo Publishing, book publisher;
- **advertising**, managed by Cairo Communication and Cairo Pubblicità, which work together in advertising sales in print media for the publishing companies of Cairo Editore and of Editoriale Genesis ("Prima Comunicazione"), and on TV for third-party publishers TIMedia (La7 and La7d), Sportitalia, Dahlia and Turner Broadcasting (Cartoon Network, Boomerang, and CNN), on the Internet and for the sale of stadium advertising spaces at the Olimpico football pitch in Turin for Torino FC;
- **Il Trovatore,** which manages its own search engine and provides technological services mainly within the group.

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

Year ended 31/12/2010	Publishing	Advertising	Trovatore	Unallocated operations	Eliminations	Total
Net sales	74,701	168,831	28	-		243,560
Inter-sector net sales	26,502	500	316		(27,318)	-
Other operating revenues	1,958	913	-	-	-	2,871
Non-recurring arbitration income	-	6,792	-	-	-	6,792
Inventory movements	(35)		-	-	-	(35)
Cost of sales	(68,148)	(126,203)	(259)	-	-	(194,610)
Cost of inter-sector sales	(480)	(26,838)	-	-	27,318	-
Personnel costs	(16,194)	(5,526)	(33)	-	-	(21,753)
Amortization, depreciation, write-downs and provisions	(1,489)	(2,247)	(2)	-	-	(3,738)
Operating profit (EBIT)	**16,815**	**16,222**	**50**	-	-	**33,087**
Investment income	-	-	-	-	-	-
Financial income / (expenses)	61	290	(1)	-	-	350
Pre-tax profit	**16,876**	**16,512**	**49**	-	-	**33,437**
Income tax	(5,701)	(6,896)	(43)	-	-	(12,640)
Group net profit from continuing operations	**11,175**	**9,616**	**6**	-	-	**20,797**
Net profit / (loss) from discontinued operations	-	-	-	(67)	-	(67)
Net profit	11,175	9,616	6	67	-	**20,730**
- Minorities	-	-	1	-	-	**1**

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

Year ended 31/12/2009	Publishing	Advertising	Trovatore	Unallocated operations	Eliminations	Total
Net sales	76,473	150,159	25	-	-	226,658
Inter-sector net sales	27,685	502	335	-	(28,522)	-
Other operating revenues	1,240	414	-	-	-	1,654
Inventory movements	(165)		-	-	-	(165)
Cost of sales	(73,751)	(109,624)	(273)	-	-	(183,649)
Cost of inter-sector sales	(718)	(27,783)	(21)	-	28,522	-
Personnel costs	(16,894)	(4,759)	(31)	-	-	(21,684)
Amortization, depreciation, write-downs and provisions	(1,319)	(2,459)	(17)	-	-	(3,795)
Operating profit (EBIT)	**12,551**	**6,450**	**18**	**-**	**-**	**19,019**
Investment income				(79)	-	(79)
Financial income / (expenses)	47	579	(1)	-	-	626
Pre-tax profit	**12,598**	**7,029**	**17**	**(79)**	**-**	**19,566**
Income tax	(4,710)	(2,673)	(18)	-	-	(7,401)
Group net profit from continuing operations	**7,888**	**4,356**	**(1)**	**(79)**	**-**	**12,165**
Net profit / (loss) from discontinued operations	-	-	-	(127)	-	(127)
Net profit	**7,888**	**4,356**	**(1)**	**(206)**	**-**	**(12,038)**
- Minorities	**-**	**-**	4	**-**	**-**	4

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

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

***

15. Earnings per share

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

Description	**Consolidated financial statements as at 31/12/2010**	**Consolidated financial statements as at 31/12/2009**
€ thousands:		
Net profit from continuing operations	20,797	12,165
Net profit / (loss) from discontinued operations	(67)	(127)
Net profit / (loss)	**20,730**	**12,038**
Weighted average number of shares in circulation as at 31 December 2010	78,343,400	78,343,400
Weighted average number of treasury shares	(771,326)	(878,367)
Weighted average number of shares used in the calculation of earnings per share	**77,572,074**	**77,465,033**
€ thousands:		
Earnings per share attributable to continuing operations	0,268	0,156
Earnings / (loss) per share attributable to discontinued operations	(0,001)	(0,001)
Net earnings per share	0,267	0,155

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

NOTES TO THE CONSOLIDATED BALANCE SHEET

Asset and liabilities by category are analyzed according to the following notes:

16. Property, plant and equipment

The movements in PPE can be analyzed as follows:

Description	Property	Machinery	Other	Total
Net book value as at 31/12/2009	**1,496**	**124**	**1,192**	**2,812**
Additions	-	27	223	250
Disposals	-	-	-	-
Depreciation	(46)	(23)	(337)	(406)
Net book values as at 31/12/2010	**1,450**	**128**	**1,078**	**2,656**

***

17. Intangible assets

The movement in intangible assets can be analyzed as follows:

Description	Concessions trademarks licenses	Goodwill	Titles	Total
Balances as at 31/12/2009	**3,568**	**7,198**	**2,335**	**13,101**
Additions	174	-	-	174
Disposals	(4)	-	-	(4)
Other movements	(3,152)	-	-	(3,152)
Amortization	(302)	-	(265)	(567)
Balances as at 31/12/2010	**284**	**7,198**	**2,070**	**9,552**

Concessions, trademarks and licenses

As at 31 December 2010, the item mainly regarded application software.

As at 31 December 2009, concessions, trademarks and licenses included the residual amount (approximately Euro 3.1 million net of related accumulated amortization as at 30 June 2004) of the consolidation difference related to the difference between purchase price in 1998 of the investment in Telepiù Pubblicità S.r.l (renamed Cairo TV S.p.A.) and the company’s equity at purchase date, relating to the ten-year exclusive contract for the sale of advertising time on analogue and digital channels of the former Telepiù network.

In August 2010, Cairo Communication filed a new arbitration against Telepiù to assess a breach by Telepiù of the contract under which it had transferred to the Company the entire share capital of Telepiù Pubblicità S.r.l. (renamed Cairo TV S.p.A.), as a result of the termination of the concession contract through act and default of Telepiù, and for damages suffered by Cairo Communication as acquirer of Cairo TV. The Board of Arbitrators was formed on 5 November 2010 and is composed by prof. avv. Gerardo Broggini (president), prof. avv. Francesco Benatti, (arbitrator appointed by the Company), prof. avv. Vincenzo Roppo (arbitrator appointed by Telepiù). The meeting on 27 January set the terms for the briefs, with the final hearing scheduled on 11 May 2011.

Goodwill

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

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

CGU	**Balance 31/12/09**	**Additions**	**Decreases**	**Write-downs**	**Balance as at 31/12/10**
Publishing	4,746	-	-	-	4,746
Advertising	2,289	-	-	-	2,289
Trovatore	163	-	-	-	163
Total	**7,198**	**-**	**-**	**-**	**7,198**

As at 31 December 2010, the abovementioned goodwill amounts underwent impairment testing as required by IAS 36. This valuation, carried out at least annually, was performed at the level of the cash generating unit (CGUs) to which the goodwill amounts are allocated. The realizable value of the goodwill amounts was determined through the estimate of their value in use calculated as the current value of the prospective operating cash flows derived from the most recent company budget and plan. The main assumptions made for the calculation of the value in use are summarized as follows:

CGU	**Growth rate of terminal values 2010**	**Discount rate 2010**	**Growth rate of terminal values 2009**	**Discount rate 2009**
Publishing	1%	10.5%	1%	10.5%
Advertising	1%	10.5%	1%	10.5%
Trovatore	1%	10.5%	1%	10.5%

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

It should be noted that the estimates and the budget data used for the determination of the realizable values of the goodwill amounts have been determined by Group management on the basis of both past experience and on the expectations of the development in the markets in which the Group operates, also taking account of the specific features of the general economic environment.

Titles

Titles are made up as follows:

Description	**Balance as at 31/12/09**	**Additions**	**Amortization**	**Balance as at 31/12/10**
Bell'Italia	1,471	-	(165)	1,306
Bell'Europa	805	-	(88)	717
Other titles	59	-	(12)	47
Total	**2,335**	**-**	**(265)**	**2,070**

The time period deemed appropriate for the valuation of the remaining useful life of these titles has been set at 20 years for "Bell'Italia" and "Bell'Europa". The value of the other titles, primarily "Arte" and "Antiquariato", has also been amortized on a straight line basis over a 20 year period. The book values of "Bell'Italia" and "Bell'Europa" underwent impairment testing to evaluate any potential permanent loss in value against their realizable values, as defined by their useful values according to cash flow estimates based on the expected results of the titles. These tests have not identified a need to correct the book values in any of these cases. The main assumptions made in the calculation of their value in use are as detailed in the previous paragraph.

..

18. Investments and non-current financial assets

The movement in investments can be analyzed as follows:

Investments	**Balance as at 31/12/09**	**Additions**	**Effects of fair value measurement**	**Balance as at 31/12/10**
Cairo Sport S.r.l	10	-		10
Total subsidiaries	**10**	**-**		**10**
Dmail Group S.p.A.	4,009	-	(1,775)	2,234
Other	11	-	-	11
Total other	**4,020**	**-**	**(1,775)**	**2,245**
Total	**4,030**	**-**	**(1,775)**	**2,255**

Cairo Sport S.r.l. was measured at cost, which does not differ much from the value according to the equity method.

Investments in other companies amounted to Euro 2,234 thousand (Euro 4,009 thousand as at 31 December 2009), and refer to 765,000 shares in the listed company Dmail Group, equivalent to 10% of its capital.

As at 31 December 2010, the investment was written down to adjust the book value to the fair value, corresponding to the share's Stock Exchange price as at that date (Euro 2.92 per share), offset in equity for a total of Euro 1,775 thousand, an amount also recognized as an item in the statement of comprehensive income and classified as *loss from impairment of investments available for sale*.

The investment in Dmail Group is a financial instrument listed on a regulated market, therefore of hierarchical level 1.

***

19. Prepaid tax assets

These relate to the recognition, in the financial statements as at 31 December 2010, of prepaid tax assets on the timing differences between the values of assets and liabilities reported in the financial statements and their tax values, as follows:

	31/12/2010		31/12/2009	
	Timing differences	**Tax effect**	**Timing differences**	**Tax effect**
Prepaid tax assets				
Taxed provisions for bad debts	8,808	2,424	11,132	3,061
Tax losses carried forward	68	19	180	50
Taxed and returned provisions for risks and charges	1,055	327	900	278
Provision for obsolete inventory	643	202	632	198
Entertainment expenses deductible in future years	5	1	39	12
Directors' fees	709	195	234	64
Recording of the write-off of trade relations	1,240	386	-	-
Recording of the transfer / write off of the intra-group sale of titles	2,876	903	3,138	985
Other timing differences	408	131	418	115
Total prepaid tax assets	**15,812**	**4,588**	**16,673**	**4,763**
Deferred tax liabilities				
Different treatment of provision for retirement benefits and staff severance	(229)	(63)	(223)	(70)
Different treatment of depreciation on land with buildings	(143)	(45)	(131)	(41)
Total deferred tax liabilities	**(372)**	**(108)**	**(354)**	**(111)**
Net prepaid tax assets/ (deferred liabilities)	**15,440**	**4,480**	**16,319**	**4,652**

Prepaid tax assets are recorded to the extent they are considered recoverable depending on the presence of future taxable profits in which timing differences will be reversed. Management periodically reviews the estimates underlying the recoverability of these amounts.

* * *

20. Inventory

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

Description	31/12/10	31/12/09	Change
Materials and supplies	2,408	3,732	(1,324)
Work-in-progress and bordereau	256	301	(45)
Books	288	278	10
Total	**2,952**	**4,311**	**(1,359)**

- Materials and supplies

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

- Work-in-progress

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

- Finished products

  Finished products include Cairo Editore and Cairo Publishing S.r.l. inventory, books in store and monographic issues, valued at the lower of cost and net realizable value.

***

21. Trade receivables

Trade receivables can be analyzed as follows:

Description	31/12/10	31/12/09	Change
Trade receivables	103,476	100,511	2,965
Provision for bad debts	(9,534)	(11,267)	1,733
Total trade receivables	**93,942**	**89,244**	**4,698**

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

The ageing of trade receivables by due date as at 31 December 2010 versus 31 December 2009 is as follows:

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

31 December 2009	Current	Due between 30 and 60 days	Due between 61 and 90 days	Due between 91 and 180 days	Due over 180 days	Total
Trade receivables	74,342	2,390	2,570	2,918	18,291	100,511
Provision for bad debts	(1,097)	(161)	(149)	(308)	(9,552)	(11,267)
Net trade receivables	**73,245**	**2,229**	**2,421**	**2,610**	**8,739**	**89,244**

In terms of concentration, the top 10 customers represent roughly 18% (18% in 2009) of total sales, whilst the top 100 customers represent 58% (60% in 2009). These ratios are basically in line with prior periods.

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

In 2010, the provision for bad debts increased by a net Euro 2,641 thousand, composed of provisions of Euro 4,374 thousand, and write-off of Euro 1,733 thousand.

Trade receivables included Euro 321 thousand by Cairo Pubblicità from Torino Football Club S.p.A. for contractual relations as described below in Note 36, Euro 88 thousand by Cairo Communication for administrative services provided, and Euro 18 thousand by Cairo Editore for various rebilled expenses.

***

22. Miscellaneous receivables and other current assets

These can be analyzed as follows:

Description	31/12/10	31/12/09	Change
Interest withholding receivable from the State	3	1	2
Prepaid IRAP	20	76	(56)
Direct tax receivable	967	354	613
VAT receivable	291	810	(519)
Total State receivables	**1,281**	**1,241**	**40**
One-off payment Sport Italia	2,000	2,500	(500)
Publishers' advances	2,563	-	2,563
Other accrued income	769	854	(85)
Other receivables	8,179	2,037	6,142
Total miscellaneous receivables and other current assets	**14,792**	**6,632**	**8,160**

The item included Euro 7.5 million, the credit balance from Telepiù arising from the foregoing arbitration award, which Telepiù offset against the restricted deposit mentioned below in Note 23 "marketable securities", for grounds which Cairo has challenged in court. Telepiù has claimed to offset its liability by means of the deposit up to the amount, with receivables from invoices issued following the circumstances that took place after the termination of the concession contract, receivables challenged by Cairo which has kept the relevant liability recorded in the balance sheet (Euro 6.9 million).

As at 31 December 2009, other receivables included approximately Euro 1.6 million referable to the Telepiu's share of loss accrued on receivables from advertising clients, under the advertising concession contract (which provided for a share of loss to be debited to Telepiù) the amount of which was absorbed in the damages liquidated to Cairo as a result of the arbitration.

"One-off payment Sport Italia" included the residual amount of the one-off payment acknowledged in December 2009 to the publisher Interactive Group for the signing of the exclusive advertising concession contract on the digital and satellite Sportitalia and Sportitalia 2 channels and on the www.sportitalia.com website starting from 2010. In the same year, the publisher received a monthly provisional advance payment on the share of revenues due of approximately Euro 0.7 million, adjustable (plus or minus) at year end with the actual amount accrued. Publishers' advances included receivables (Euro 2.6 million) to Interactive Group, equal to the difference between amount accrued and advance payments in 2010.

***

23. Marketable securities

The item can be analyzed as follows:

Description	31/12/10	31/12/09	Change
Restricted bank deposits	-	7,543	(7,543)
Other current financial assets	79	79	-
Total	**79**	**7,622**	**(7,543)**

As at 31 December 2009, the consolidated net financial position included cash deposited in a current account held jointly with Telepiù S.r.l. (Euro 7.5 million including interest accrued), subject – according to the terms agreed by the parties when the account was opened - to the arbitration award between Cairo Communication and Telepiù. Following the award issued on 27 January 2010, the deposit was released in favor of Cairo Communication. Telepiù offsets it entirely against the damages liquidated by the Arbitrators on grounds challenged by Cairo Communication in court in July 2010.

***

24. Cash and cash equivalents

The item can be analyzed as follows:

Description	31/12/10	31/12/09	Change
Bank and postal deposits	58,242	43,848	14,394
Cash	18	19	(1)
Total cash and cash equivalents	**58,260**	**43,867**	**14,393**

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

Description	31/12/10	31/12/09	Change
Cash and cash equivalents	58,260	43,867	14,393
Current restricted deposits	-	7,543	(7,543)
Current financial assets	79	79	-
Bank overdrafts	-	(125)	125
Bank borrowings	-	-	-
Total	**58,339**	**51,364**	**6,975**

The Group continued to manage its cash and bank assets prudently, investing for the most part in interbank deposits. As shown in the cash flow statement, the total net change of approximately Euro 7 million in the net financial position is mainly due to positive cash flow generated by operations net of dividends distributed of Euro 15.5 million.

In the consolidated cash flow statement, the "net final cash and cash equivalents" line does not include the current financial assets of Euro 79 thousand (Euro 79 thousand as at 31 December 2009). In 2009, the "net final cash and cash equivalents" line did not also include the restricted deposits of Euro 7,543 thousand.

***

25. Equity

As at 31 December 2010, consolidated equity was Euro 70,184 thousand, including profit for the year.

The Shareholders' Meeting on 28 April 2010 approved the distribution of a dividend for a total of Euro 0.2 per share, including tax, with detachment date (coupon n. 2 post split) on 10 May 2010, for a total of Euro 15.5 million.

The share capital as at 31 December 2010 was Euro 4,074 thousand, fully paid and subscribed, comprising 78,343,400 ordinary shares to which no nominal value is attributed.

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

The reconciliation between the number of shares in circulation as at 31 December 2009 and the number as at 31 December 2010 is as follows:

	31/12/2009	**Purchase treasury shares**	**Sale treasury shares**	**31/12/2010**
Ordinary shares issued	78,343,400	-	-	78,343,400
Less: treasury shares	(771,326)	-	-	(771,326)
Ordinary shares in circulation	**77,572,074**	**-**	**-**	**77,572,074**

In 2010, as part of the share buyback plans, no treasury shares were acquired or sold.

As at 31 December 2010, Cairo Communication held n. 771,326 shares, or 0.985% of the share capital, subject to art. 2357-ter of the Civil Code, for a value of Euro 2,351 thousand deducted from equity.

***

26. Provision for retirement benefits and staff severance

The provision for retirement benefits and staff severance reflects allocations made for all employees at the date of the consolidated financial statements, made on the basis of a projected unit credit method using actuarial valuations. The main assumptions used in this valuation are as follows:

COMPANY	Cairo Communication	Cairo Pubblicità	Cairo Editore	Cairo Pubblicità
TYPE OF VALUATION	**SS**	**SS**	**SS**	**Supplementary allowance**
Mortality table	Sim/f 1998	Sim/f 1998	Sim/f 1998	Sim/f 1998
Reduction of mortality table	20.00%	20.00%	20.00%	20.00%
Advance request rate EXECUTIVE MANAGER	1.00%	0.50%	0.50%	-
Advance request rate MANAGER	2.00%	0.50%	2.00%	-
Advance request rate EMPLOYEE	2.00%	0.50%	2.00%	-
Advance request rate JOURNALIST	not present	not present	2.00%	
Salary increase rate EXECUTIVE MANAGER	5.00%	2.50%	0.00%	-
Salary increase rate MANAGER	4.00%	2.50%	0.00%	-
Salary increase rate EMPLOYEE	4.00%	2.50%	0.00%	-
Salary increase rate JOURNALIST	not present	not present	0.00%	
Fee increase rate AGENT	-	-	-	4%
Future inflation rate	2.00%	2.00%	2.00%	2.10%
Discount rate	4.00%	4.00%	4.00%	4.10%
Resignation rate EXECUTIVE MANAGER	2.00%	0.50%	0.00%	-
Resignation rate MANAGER	2.00%	0.50%	5.00%	-
Resignation rate EMPLOYEE	7.00%	2.50%	6.50%	-
Resignation rate JOURNALIST	not present	not present	5.00%	
Resignation rate AGENT	-	-	-	15%

The composition and movements of the provision for retirement benefits and staff severance is broken down as follows:

	Balance as at 31/12/10	Balance as at 31/12/09
Opening balance	**3,813**	**3,702**
Increase in provision	651	707
Utilized/other movements	(573)	(596)
Closing balance	**3,891**	**3,813**

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

Description	31/12/2010	31/12/2009	Average
Executive managers	15	14	14
Managers	19	18	19
Employees	127	125	126
Journalists / Freelance journalists	100	98	99
Total	**261**	**255**	**258**

***

27. Non-current bank borrowings

The Group has none.

***

28. Provisions for liabilities and charges

The provisions for liabilities and charges include:

Description	**31/12/10**	**31/12/09**	**Change**
Provision for disputes and charges	956	902	54
Provision for publishing inventory	697	627	70
Provision for liquidation	102	51	51
Provision for other risks and charges	369	359	10
Total	**2,124**	**1,939**	**185**

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

Description	Disputes and charges	Publishing inventory	Liquidation	Other risks and charges	Total
Closing balance as at 31/12/2009	**902**	**627**	**51**	**359**	**1,939**
Increase in provisions	74	70	100	50	294
Utilized	(20)	-	(49)	(40)	(109)
Closing balance as at 31/12/2010	**956**	**697**	**102**	**369**	**2,124**

The provision for disputes was established by Cairo Pubblicità S.p.A. to provide against client disputes as prescribed by law and current contracts.

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

The provision for liquidation refers to provisions made to cover the liquidation costs of Diellesei in liquidation; the relating provisions are recognized in the profit / (loss) from discontinued operations.

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

***

29. Current bank borrowings

As at 31 December 2010, there are no bank borrowings. As at 31 December 2009, current bank borrowings amounted to Euro 126 thousand and referred to bank overdrafts.

***

30. Trade payables

Trade payables amounted to Euro 97,787 thousand, up by Euro 5,650 thousand versus 31 December 2009, and relate entirely to the current year. The portion related to Diellesei amounted to Euro 102 thousand.

Trade payables include Euro 238 thousand due to the associate Torino Football Club S.p.A. for dues accrued for the advertising concession contract signed with Cairo Pubblicità S.p.A.

***

31. Parent company receivables and payables

Parent company receivables and payables of Euro 63 thousand and Euro 3,928 thousand, respectively, refer mainly to receivables from and payables due to the holding company UT Communications S.p.A. arising from the national tax consolidation agreement, under art. 117/129 of the TUIR, to which Cairo Communication S.p.A. and its subsidiaries Cairo Editore S.p.A., Cairo Pubblicità S.p.A., Diellesei S.p.A. in liquidation, Cairo Due S.r.l. and Cairo Publishing S.r.l. agreed to adhere.

***

32. Tax liabilities

Tax liabilities can be broken down as follows:

Description	31/12/2010	31/12/2009	Change
Payroll deductions – employees	776	784	(8)
Payroll deductions – contract workers	424	452	(28)
IRAP payables	666	89	577
VAT payables	285	77	208
Other	130	1	129
Total tax liabilities	**2,281**	**1,403**	**878**

***

33. Other current liabilities

These can be analyzed as follows:

Description	31/12/2010	31/12/2009	Change
Social security liabilities	1,554	1,538	16
Advances	1,818	1,532	286
Personnel liabilities (holidays, bonuses, etc.)	3,398	3,401	(3)
Accrued expenses and deferred income	695	947	(252)
Other liabilities	1,435	2,366	(931)
Total other current liabilities	**8,900**	**9,784**	**(884)**

Social security liabilities amounted to Euro 1.554 thousand relating entirely to the current year. The Group normally pays social security liabilities and the deductions made in substitution of taxes in accordance with legally defined due dates.

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

Accrued expenses and deferred income also includes interest accrued on the current account already mentioned held with Telepiù S.p.A. Following the award issued on 27 January 2010, the deposit, including interest accrued, was released in favor of Cairo Communication. Telepiù offsets it entirely against the damages liquidated by the Arbitration Board on grounds challenged by Cairo Communication in court in July 2010 based on the foregoing grounds, and also on the agreement which had established that interest payable from the opening date of the account to the release of the sums would have been paid along with the principal, pro-rata, to the appropriate parties in accordance with the award or agreement reached by the parties.

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

***

34. Commitments and risks

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

- a guarantee of Euro 16,8 million, expiring on 15 June 2011 by Banca Popolare di Milano to Telecom Italia Media S.p.A. (Telecom Group), securing payment of minimum guaranteed fees specified in its contract for the exclusive sale of television advertising space on La7;
- guarantees totaling Euro 234 thousand by bank and insurance institutes.

35. Other information

The arbitration award issued on 27 January 2010 terminated through act and default of Telepiù the 10-year advertising concession contract signed in May 1998 between Cairo TV and Telepiù S.r.l. Telepiù was ordered to pay damages to Cairo Communication (as acquirer of Cairo TV) for the amount of Euro 11.7 million (the award also acknowledged payment of Euro 1 million for damages to Telepiù), as well as approximately Euro 0.8 million for defence and arbitration costs.

In August 2010, Cairo Communication filed a new arbitration against Telepiù to assess a breach by Telepiù of the contract under which it had transferred to the Company the entire share capital of Telepiù Pubblicità S.r.l. (renamed Cairo TV S.p.A) and the for damages suffered by Cairo Communication as acquirer of Cairo TV. The Board of Arbitrators was formed on 5 November 2010 and is composed by prof. avv. Gerardo Broggini (president), prof. avv. Francesco Benatti, (arbitrator appointed by the Company), and prof. avv. Vincenzo Roppo (arbitrator appointed by Telepiù). The meeting on 27 January set the terms for the briefs, with the final hearing scheduled on 11 May 2011.

The three-year advertising concession contract (2009-2011) for La7 signed in November 2008, renewed automatically for three more years if the contractual revenue targets are reached, sets minimum gross advertising revenues of Euro 120 million also in 2011 (target reached in 2009 and greatly exceeded in 2010), with minimum annual guaranteed fees for Telecom Italia Media of Euro 84 million (70%). In return for Cairo's commitment to minimum gross advertising revenues and minimum fees, Telecom Italia Media undertakes to maintain the annual share of La7 higher than or equal to 3% (with a contribution of the audience share of La7d – for 2010 and 2011 alone - within pre-established limits) and higher than or equal to 2.65% in prime time viewing. Should the shares drop below these thresholds, or further contractually established thresholds, Cairo is entitled to reduce the minimum guaranteed payment of Euro 84 million.

Taking also account of the share's trend in the last quarter of 2010, in December 2010 Telecom Italia Media and Cairo agreed to re-examine the advertising concession contract of 19 November 2008. Specifically, for 2011 and for the possible 2012-2014 three-year period, both set additional annual advertising revenues targets (unguaranteed) versus the minimum annual revenues, proportional to the achievement by Telecom Italia Media of annual targets of share higher than the given 3% for La7's share. Cairo's achievement of these additional targets, or payment to Telecom Italia Media of equivalent dues, will entitle Cairo to renew the contract up to 31 December 2019. Otherwise, Telecom Italia Media is authorized to withdraw from the contract.

In December 2009, Telecom Italia Media and Cairo also renewed, until 2014, the concession contract for La7d, which had been signed in April 2010 for the 2010-2011 two-year period, with automatic renewal for a further three-year period upon achievement of agreed revenues targets. The contract for the new La7d digital channel sets minimum gross advertising revenue in 2011 of Euro 8 million for a 0.2% share, with minimum guaranteed fees paid on a monthly basis to Telecom Italia Media of Euro 5.6 million. For 2011, variations in the share below 0.2% will imply reductions in minimum annual revenues and minimum guaranteed fees. For subsequent years, variations in the share above or below 0.2% will imply increases or reductions in minimum annual revenues and minimum guaranteed fees.

The Provincial Tax Commission of Milan, in its hearing of 18 October 2010, ruled in favour of the appeal by Cairo Editore S.p.A. regarding the tax assessment notice for 2004 illustrated in the notes to the financial statements as at 31 December 2009.

As the result of a VAT audit performed on Cairo Communication S.p.A., in their draft audit report, the Guardia di Finanza identified potential liabilities for 2002 and subsequent years (2003, 2004 and 2005) relating to the non-application of VAT on dealing rights charged to media centres, which were subsequently confirmed in their final audit report issued in January 2008 (for 2002) and in June 2008 (for 2003, 2004 and 2005), which the company has challenged. For all the periods in question, the Provincial Tax Commission of Milan has ruled in favour of the Company's appeals. The Agenzia delle Entrate (Revenue Agency) has filed an appeal to the Regional Tax Commission of Milan against these decisions. On 21 April 2010, the Regional Tax Commission of Milan ruled in favour of the Agency's appeal regarding the year 2002 on questionable grounds. To date, the 2003, 2004 and 2005 years are still awaiting discussion by the Regional Commission. Cairo Communication has appealed to the Court of Cassation against the sentence related to 2002, for which the tax claim amounts to Euro 41 thousand, in addition to sanctions of Euro 51 thousand. Based also on the advice of its tax consultants, the Directors believe there are fundamental reasons and rights to oppose the potential liabilities, and have therefore made no relevant accrual against them.

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

The Agenzia delle Entrate challenged the Company for its use, to offset payments made in 2007, of excess IRES from the tax return for the year ended 30 December 2006. While not challenging the relevant credit to Cairo, the Agency has refuted its use for offsetting purposes on grounds of non-compliance of procedures (specifically, the Agency claims that use of the credit would have required a formal credit transfer from the Company to the Company). On 6 July 2010, the Company received a tax demand, substantially for payment of Euro 28 thousand as interest, and Euro 145 thousand as sanctions, since the credit has not been unacknowledged. Based also on the advice of its tax consultants, the Directors believe there are fundamental reasons and rights to oppose the potential liabilities and have therefore made no relevant accrual against them.

A previous shareholder of the subsidiary Il Trovatore S.r.l., who did not sell their shares to the parent company, had risen a claim against the current minority shareholder, involving Cairo Communication S.p.A. indirectly, questioning the validity of the contract under which he had sold the share in the limited partnership Il Trovatore and the transformation of this company from a limited partnership to a limited liability company (S.r.l.), and requesting the annulment of the subsequent purchase of the company by

Cairo Communication. The requests of the counterparty were rejected in the first instance, although the counterparty has filed an appeal. Based also on the advice of its counsels, the Directors believe that the grounds of these claims are such as not to request a specific accrual.

It is also noted that:

- the consolidated financial statements for the year ended 31 December 2010 do not include any receivables or payables with a residual term exceeding five years.
- no company within the Group consolidation has capitalized any financial expenses.

***

36. Related party transactions

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

The Group holds relations with the parent company (UT Communications S.p.A.) and with this company's subsidiaries at conditions deemed normal in their respective relevant markets, taking into account the nature of services offered. Below is a summary of the balance sheet and income statement balances deriving from the transactions made in 2010 with these related parties, identified in accordance with IAS 24.

The Group holds an investment in the subsidiary Cairo Sport (Euro 10 thousand).

The effects of these relations on the 2010 consolidated income statement of the Cairo Communication are as follows:

Revenues and costs (€ thousands)	**Operating profits**	**Operating costs**	**Financial income**	**Financial expenses**
Parent company				
UT Communications S.p.A.	-	-	-	-
Jointly-controlled companies				
Torino FC S.p.A.	122	1,388	-	-
Mp Service	-	-	-	-
Total	**122**	**1,388**	**-**	**-**

The effects of these relations on the consolidated balance sheet of the Cairo Communication Group as at 31 December 2010 are as follows:

Receivables and financial assets (€ thousands)	**Trade receivables**	**Other receivables and current assets**	**Receivables tax consolidation**	**Other current financial assets**
Parent company				
UT Communications S.p.A.	61	-	2	-
Jointly-controlled companies				
Torino FC S.p.A.	427	-	-	-
Mp Service	24	-	-	-
Total	**512**	**-**	**2**	**-**

Payables and financial liabilities (€ thousands)	**Trade payables**	**Other payables and current liabilities**	**Payables tax consolidation**	**Other current financial liabilities**
Parent company				
UT Communications S.p.A.	-	-	3,928	-
Jointly-controlled companies				
Torino FC S.p.A.	239	-	-	-
Total	**239**	**-**	**3,928**	**-**

In 2010, there were no transactions with the parent company (U.T. Communications S.p.A.), nor with this company's subsidiaries, with the exception of:

- the publishing concession contract signed with Torino Football Club S.p.A., subsidiary of UT Communications, for the sale of advertising space at the Olimpico football pitch and promotional sponsorship packages. The contract provides for the concession to the seller of a percentage of the profits gained (85%), net of advertising agency discounts relating to contracts signed directly and invoiced by Cairo Pubblicità, granting the latter 2% of contracts signed directly by Torino FC; This contract resulted in the payment of Euro 1,244 thousand to the concession holder against net income of Euro 1,460 thousand, and Cairo Pubblicità realized further commissions of Euro 35 thousand.
- the contract signed by Cairo Communication S.p.A. and Torino F.C. for the provision of administrative services such as book keeping; starting from April 2010, the agreement provides for an annual fee of Euro 100 thousand (Euro 48 thousand until 31 March 2010).
- the agreement relating to the purchase of advertising space at the Olimpico pitch between Cairo Editore and Torino FC. In 2010, advertising spaces were acquired for a total of Euro 100 thousand.
- as already mentioned, Cairo Communication and its subsidiaries Cairo Editore S.p.A., Cairo Pubblicità S.p.A., Diellesei S.p.A. in liquidation, Cairo Due S.r.l. and Cairo Publishing S.r.l. adhered to the national tax consolidation agreement of UT Communications S.p.A.

  The consolidation agreement, which governs the financial aspects of amounts paid or received in return for the advantages or disadvantages resulting from the tax consolidation, specifically provides that any eventual greater charges or minor benefits that may accrue to the Company resulting from adhesion to the procedure, be suitably remunerated by the parent company. In relation to this, the consolidated financial statements as at 31 December 2010 include receivables from and payables due to the parent company UT Communications S.p.A. of Euro 2 thousand and Euro 3,912 thousand, respectively.

Compensation paid to the directors in 2010 are analyzed in Note 38 *"Board of Directors' and Board of Auditors' compensation"*

***

37. Risk management

Liquidity risk

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

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

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

Risk of foreign exchange and interest rate fluctuation

The Cairo Communication Group is not exposed to the risk of foreign exchange and interest rate fluctuation, in that on one hand, there is no loan finance, whilst on the other hand Group operations are carried out exclusively in Italy, so all revenues are generated within the country and principal costs are incurred in Euro.

Interest rate risk only affects the yield on available cash. Specifically, with reference to the net financial position as at 31 December 2010, a one percentage point reduction in the interest rate would result in a reduction in annual financial income of approximately Euro 0.5 million.

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

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

Credit risk

The Group is exposed to credit risk, primarily in relation to its advertising sales activities. This risk is however mitigated by the fact that the exposure is divided across a large number of clients and that credit monitoring and control procedures are in place. It should be noted that in terms of the concentration, the top 10 customers represent 18% (18% in 2009) of total sales, whilst the top 100 customers represent 57% (60% in 2009). These ratios are basically in line with prior periods.

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

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

The Group's maximum theoretical exposure to credit risks as at 31 December 2010 is given by the book value of trade receivables and other recorded receivables totaling Euro 108.8 million (Euro 96.5 million as at 31 December 2009), and by the face value of guarantees furnished on third-party debts or commitments as indicated in Note 34.

The credit risks associated with cash and cash equivalents, with a maximum theoretical exposure of Euro 53.8 million (Euro 51.4 million as at 31 December 2009), is considered irrelevant as they are deposits spread across various banks.

…

39. Board of Directors' and Board of Auditors' compensation

Pursuant to art. 2427, section 16 of the Civil Code and as set forth in art.78 of the Issuers' Regulations of CONSOB, the Group discloses the following compensation awarded to the Directors, Auditors, General Managers and Managers with strategic responsibilities, including in subsidiaries, for the year ended 31 December 2010:

Name and surname	**Position**	**Term of office**	**Term expiry date**	**Compensation**	**Benefits in kind ***	**Bonuses and other incentives**	**Other compensation ****
Dr. Urbano R. Cairo	Chairman BoD	Jan.-Dec. 2010	Approval fin. stat. 2010	150	7	-	855
Dr. Uberto Fornara	Managing Director	Jan.-Dec. 2010	Approval fin. stat. 2010	474	4	-	330
Dr. Roberto Cairo	Director	Jan.-Dec. 2010	Approval fin. stat. 2010	20	-	-	-
Avv. Marco Janni	Director	Jan.-Dec. 2010	Approval fin. stat. 2010	40	-	-	-
Avv. Antonio Magnocavallo	Director	Jan.-Dec. 2010	Approval fin. stat. 2010	40	-	-	-
Dr. Marco Pompignoli	Director	Jan.-Dec. 2010	Approval fin. stat. 2010	290	3	-	335
Dr. Roberto Rezzonico	Director	Jan.-Dec. 2010	Approval fin. stat. 2010	40	-	-	-
Dr. Mauro Sala	Chairman Board of Auditors	Jan.-Dec. 2010	Approval fin. stat. 2010	24	-	-	14
Dr. Marco Moroni	Statutory auditor	Jan.-Dec. 2010	Approval fin. stat. 2010	16	-	-	4
Dott.ssa Mariapia Maspes	Statutory auditor	Jan.-Dec. 2010	Approval fin. stat. 2010	16	-	-	9

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

- *Dr. Urbano Cairo: compensation pursuant to art. 2389, paragraph 3, Civil Code (Euro 130 thousand).*
- *Dr. Uberto Fornara: compensation pursuant to art. 2389, paragraph 3, Civil Code (Euro 454 thousand).*
- *Avv. Marco Janni: compensation for attendance in meetings of the Compensation Committee, Audit Committee and Related Party Committee (Euro 20 thousand);*
- *Avv. Antonio Magnocavallo: compensation for attendance in meetings of the Compensation Committee, Audit Committee and Related Party Committee (Euro 20 thousand);*
- *Dr. Marco Pompignoli: compensation pursuant to art. 2389, paragraph 3, Civil Code (Euro 270 thousand);*
- *Dr. Roberto Rezzonico: compensation for attendance in meetings of the Compensation Committee, Audit Committee and Related Party Committee (Euro 20 thousand).*

*** Other compensation refers to:*

- *Dr. Urbano Cairo: compensation for his duties performed for Cairo Editore (Euro 850 thousand) and other companies of the Group (Euro 5 thousand).*
- *Dr. Uberto Fornara: gross compensation as senior manager payable by Cairo Communication (Euro 224 thousand) and compensation for his duties performed for Cairo Pubblicità (Euro 100 thousand) and other companies of the Group (Euro 6 thousand).*
- *Dr. Marco Pompignoli: gross compensation as senior manager payable by Cairo Communication (Euro 140 thousand) and compensation for his duties performed for Cairo Pubblicità (Euro 190 thousand) and other companies in the Group (Euro 5 thousand).*

Managers of Cairo Communication S.p.A. holding strategic responsibilities are directors

On 28 January 2008, the Shareholders' Meeting of Cairo Communication S.p.A. had resolved on an annual compensation of Euro 200 thousand, which the meeting of the Board of Directors on 14 May 2008 had split up in, respectively, Euro 15 thousand and Euro 45 thousand as compensation due respectively to the Compensation Committee and to the Audit Committee. The remaining Euro 140 thousand was split up among the seven directors.

On 13 May 2010, the Board of Directors of Cairo Communication, upon proposal of the Compensation Committee, pursuant to art. 2389, paragraph 3 of the Civil Code, resolved to grant compensation to Chairman Urbano Cairo, Managing Director Uberto Fornara, and Director Marco Pompignoli, who hold particular responsibilities, amounting respectively to Euro 130 thousand, Euro 60 thousand and Euro 90 thousand.

Under the decisions adopted by the Board of Directors on 11 February 2011, on the proposal of the Compensation Committee and the favourable opinion of the Related Party Committee, further compensation was established for 2010, specifically:

- for Managing Director Uberto Fornara - according to the variable compensation mechanism defined by the Board on 30 July 2010, based mainly on advertising revenue growth targets - Euro 394 thousand,
- for Director Marco Pompignoli – based on overall work quality assessments - Euro 180 thousand.

Mention must be made, also under Consob Communication n. DEM/11012984 of 24 February 2011, point 2.3, letters (a) and (f) that:

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

- there are agreements in place between the Company and dott. Uberto Fornara, prior to non-competition commitments in the year following termination of his employment with the Company, for payment of a gross monthly compensation of 150% solely of the gross monthly salary in his capacity as executive, which will become effective upon termination of his relationship.

  Mention must be made that there are no succession plans regarding executive directors. Cairo Communication has no stock option plans in place at this time.

The positions held by Directors and Auditors in other Group companies are shown in Note 31 of the Parent Company financial statements.

38. <u>Transactions deriving from atypical and/or unusual transactions</u>

Pursuant to Consob Communication of 28 July 2006 n. DEM/6064296, mention must be made that in 2010, Cairo Communication made no atypical and/or unusual transactions as defined by the Communication.

As already explained in Note 2, in the schedules of the consolidated income statement, income arising from the Cairo-Telepiù arbitration pending since 2004 is shown separately owing to its non-recurring nature and size

Regarding the income statement of 2009, shown as comparison, there are no cost and revenue components deriving from events or transactions which by their nature or size are considered non-recurring.

Chairman of the Board of Directors

Dott. Urbano R. Cairo

Cairo Communication S.p.A.

Consolidated Financial Statements as at 31 December 2010 – Appendices

APPENDIX 1

CAIRO COMMUNICATION GROUP COMPANIES

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

Subsidiaries	Head office	Share capital as at 31/12/10	% Ownership	Shareholding companies	Consolidation method
Cairo Communication S.p.A.	Milan	4,074			Full
Cairo Editore S.p.A.	Milan	1,043	99.95	Cairo Communication	Full
Diellesei S.p.A. in liquidation	Milan	2,000	60	Cairo Communication	Full re assets and liabilities (*)
Cairo Due S.r.l.	Milan	47	100	Cairo Communication	Full
Cairo Pubblicità S.p.A.	Milan	2,818	100	Cairo Communication	Full
Cairo Publishing S.r.l.	Milan	10	100	Cairo Communication	Full
Il Trovatore S.r.l.	Milan	25	80	Cairo Communication	Full
Cairo Sport S.r.l.	Milan	10	100	Cairo Communication	Cost
Edizioni Anabasi S.r.l.	Milan	10	99.95	Cairo Editore	Full

(*) the income statement is consolidated synthetically in the net profit / (loss) from discontinued operations

APPENDIX

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

The following statement, prepared pursuant to art. 149-xii of Consob Issuers' regulations, shows the amounts due for the current year for auditing services and for non-audit services provided by the independent audit firm.

€ thousands	Services rendered by	Amount due for the year
Audit services		
Audit of the financial statements, the consolidated financial statements, quarterly audits and audit of minor companies	Deloitte & Touche S.p.A.	116
Subsidiaries	Deloitte & Touche S.p.A.	88
Certification services		
Parent company	Deloitte & Touche S.p.A.	3
Subsidiaries	Deloitte & Touche S.p.A.	6
Other services		
Parent company	Deloitte Ers Enterprise Risk	25
Total		**238**

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

Shareholders,

pursuant to art. 2429 of the Civil Code and to art. 153, paragraph 1, of Legislative Decree n. 58 of 24 February 1998, we hereby inform you that during the year ended 31 December 2010, we performed the oversight duties prescribed by law, by article 148 *et seq.* of the abovementioned Legislative Decree, and by the indications held in the relevant CONSOB communications, based also on the standards of conduct recommended by the Italian Association of Public Accountants and Accounting Professionals. The above being stated, the results of the prescribed oversight duties performed during the year ended 31 December 2010 are the following:

- we attended all the Shareholders' Meetings and those of the Board of Directors and Audit Committee, overseeing compliance with the bylaws, laws and regulations governing the functioning of Company bodies. On a quarterly basis at least, pursuant to the disclosure obligations to the Board of Auditors set forth in art. 150, paragraph 1 of Legislative Decree n. 58/1958, we received information from the Directors on activities performed and the transactions of relevance for the income statement, balance sheet and financial situation made by the Company, by subsidiaries and with related parties; we also ensured that actions resolved and taken complied with the laws and bylaws and were made in a perspective of profitability, and that they were neither imprudent nor reckless, or in potential conflict of interest or in contrast with the resolutions adopted by the Shareholders' Meeting, or such as to jeopardize the integrity of corporate assets;
- to the extent of our responsibilities, we gathered information and oversaw the adequacy of the Company's organizational structure and compliance with the principles of proper administration, and the timely execution of instructions given to subsidiaries; all these activities were conducted through direct observation, through information gathered from the organizational managers

and through meetings with the Audit Firm as part of a mutual exchange of important data and information;

- to the extent of our responsibilities, pursuant to art. 19 of Legislative Decree 39/2010, we gathered information and oversaw the adequacy and effectiveness of the audit and risk management system, and the activities conducted by the department persons in charge, as well as the reliability of the administrative-accounting system to properly represent operational events, through information received from the department persons in charge, by examining company documents and the activities conducted by the Audit Firm, by attending the meetings of the Audit Committee and the meetings with the managers charged with supervising the operations of the audit system, as well as with the Financial Reporting Manager;
- we oversaw the procedures for the correct application of the Corporate Governance rules provided by the Corporate Governance Code adopted by Cairo Communication S.p.A.;
- during the year, we issued our opinion as prescribed by law on the determination of compensation to Directors holding strategic responsibilities (art. 2389 of the Civil Code); we verified compliance with the Group's current compensation policy and with the proposals by the Compensation Committee;
- we oversaw the process regarding disclosure of financial information, pursuant to art. 19 of Legislative Decree 39/2010, and the statutory audit of annual and consolidated accounts;
- we expressed our favourable opinion on the compliance of the Procedure for Related Party Transactions adopted by the Company, with the principles set forth in the Consob Regulations containing provisions regarding related party transactions, adopted through resolution n. 17221 of 12 March 2010, subsequently amended by resolution n. 17389 of 23 June 2010. The Board of Auditors will oversee conformity with such procedure and will provide prompt information in its annual report;
- information regarding transactions with related parties or with intra-group companies contained in the explanatory notes to the IAS/IFRS consolidated financial statements of the Cairo Communication Group, and to the IAS/IFRS

separate financial statements of Cairo Communication S.p.A., is considered appropriate, considering the size and structure of the Company;

- there were no atypical and/or unusual transactions with intra-group companies and with related parties. Such transactions are part of the Company's ordinary operations and are settled at market conditions in the interest of the Company;
- during the periodic meetings held with the Audit Firm, pursuant to the provisions of art. 150, paragraph 3, of Legislative Decree 58/1998, no aspects emerged regarding issues within our responsibility;
- there were no omissions, reprehensible facts or irregularities reportable to the competent authorities or to the supervisory bodies, or worthy of mention in this report;
- no complaints were received pursuant to art. 2408 of the Civil Code;
- no opinions were issued pursuant to the law;
- in compliance with the Corporate Governance Code of Listed Companies, which the Company conforms to, pursuant to articles 3.C.5 of this Code, we verified the correct application of evaluation procedures adopted by the Board of Directors to assess the independence of its members.

  The reasons based on which the Board confirmed the persistence of the requirements of independence of two board members, disregarding application criterion 3.C.1, lett. e) of the Corporate Governance Code, which considers no longer independent a director who has been in office for more than nine years in the last twelve years, appear to be appropriately motivated, providing clear and complete information.

  We also verified the persistence of our independence as prescribed by art. 10.C.2. of the Corporate Governance Code;
- the information gathered shows that in 2010, Deloitte ERS Enterprise Risk Service Srl, part of the "network" of the Audit Firm Deloitte & Touche Spa, in addition to the task of auditing the financial statements of the Company and of its subsidiaries, was also entrusted with the task of providing technical-methodological assistance in updating the Organizational Model in accordance with the provisions of Law n. 262 of 28 December 2005. Fees for such task amounted to Euro 25,000.00.

- no critical aspects were reported from the oversight activities of the Board of Auditors on the independence of the Audit Firm, performed pursuant to art. 19 of Legislative Decree 39/2010;
- during the year, the Board of Directors and the Audit Committee both met six times, the Supervisory Board four times and the Board of Auditors five times. The Compensation Committee met twice in 2010.

Regarding oversight of the financial statements and consolidated financial statements, our report shows that:

- we verified that the presentation of the Financial Statements, Consolidated Financial Statements and the Directors' Report on Operations comply with the provisions of law, through direct assessment and through information received from the Audit Firm;
- the Financial Statements and Consolidated Financial Statements were prepared in accordance with the international accounting standards (IFRS) issued by the International Accounting Standard Board (IASB) and approved by the European Union, and with the provisions issued in application of art. 9 of Legislative Decree N. 38/2005;
- information provided by the Directors on the Report on Operations is considered exhaustive and complete;
- the Chairman of the Board of Directors and the Financial Reporting Manager have certified the financial statements, pursuant to art. 81-ter of Consob Regulations n. 11971 of 14 May 1999 and subsequent amendments and additions;
- the Audit Firm Deloitte & Touche Italia, pursuant to art. 2409 ter of the Civil Code, and to art. 156, paragraph 4 bis, lett. D of Legislative Decree n. 58 of 24 February 1998, expressed its positive opinion on the consistency of the Directors' Report on Operations with the Financial Statements and Consolidated Financial Statements.

  The reports on the Financial Statements and Consolidated Financial Statements do not contain any observations and exceptions.

All the above being stated, the Board of Auditors declares, to the extent of its responsibilities, that there are no reasons for impeding the approval of the financial statements as at 31 December 2010, and that there are no observations on the proposal to allocate profit for the year, including the proposal for dividend distribution held in the Directors' Report on Operations to the IAS/IFRS separate financial statements of Cairo Communication S.p.A. prepared by the Board of Directors.

Milan, 5 April 2011

Statutory Auditors

Dott. Mauro Sala

Dott.ssa Maria Pia Maspes

Dott. Marco Moroni

The following page provides a list of the positions of administration and supervision held by the members of the Board of Auditors in other companies as at 5 April 2010 (Annex pursuant to art. 144 quinquiedecies of the Issuers' Regulations).

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

List of positions held in Companies as per Book V, Title V, Chapters V, VI and VII of the Civil Code, as at the issue date of the Report

(art. 144-quinquiesdecies Consob Regulations 11971/99)

N.	Company Name	Position	Until
Dott. Mauro Sala (President of the Board of Auditors)			
1	CAIRO COMMUNICATION SPA	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2010
2	BICA SPA	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2012
3	VALCORTE SPA	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2011
4	FIM-FINANZIARIA-IMMOBILIARE-MOBILIARE SRL	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2012
5	CAIRO EDITORE SPA	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2010
6	IMMOBILIARE BIXIO 4 SPA	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2012
7	UT COMMUNICATIONS SPA	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2010
8	AGAVE SPA	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2010
9	CAIRO PUBBLICITA' SPA	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2012
10	DIELLESEI SPA IN LIQUIDAZIONE	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2011
11	TORINO FOOTBALL CLUB SPA	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2010
12	FINANZIARIA DEL GARDA SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
13	TRIXI SRL	STATUTORY AUDITOR	APP. F.S. 31/12/2012
14	LOKVEN SRL	STATUTORY AUDITOR	APP. F.S. 31/12/2012
15	OLDOLON ITALIANA SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
16	TELLUS SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
17	TROCARDI SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
18	PALIO SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2011
19	LANGHIRANESE PROSCIUTTI SRL	STATUTORY AUDITOR	APP. F.S. 31/12/2012
20	CISGEM SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
21	FLINA SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2011
22	LIRIA SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2010
23	LITUR SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
24	MICROCINEMA SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
25	AREA DUE SRL	SOLE DIRECTOR	TEMPO INDETERMINATO
26	AREA CONSULTING SRL	SOLE DIRECTOR	TEMPO INDETERMINATO
27	ZEDAR SERVIZI AZIENDALI SRL	SOLE DIRECTOR	APP. F.S. 31/12/2013
28	METALSA STAGNO SRL	CHAIRMAN OF THE BOARD	APP. F.S. 31/12/2012
	Number of positions held in issuing companies	1	
	Total number of positions held	28	

N.	Company Name	Position	Until
Dott.ssa Maria Pia Maspes (Statutory auditor)			
1	CAMINETTI MONTEGRAPPA SRL	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2012
2	CAIRO COMMUNICATION SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2010
3	CAIRO PUBBLICITÀ SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
4	DIELLESEI SPA IN LIQUIDAZIONE	STATUTORY AUDITOR	APP. F.S. 31/12/2011
5	G.B.H SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
6	CAIRO EDITORE SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2010
7	UT COMMUNICATIONS SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2010
8	ALTO PARTNES SGR SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
9	ITALHOLDING SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
10	IMMOBILIARE ANDRONICA SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2010
	Number of positions held in issuing companies	**1**	
	Total number of positions held	**10**	

N.	Company Name	Position	Until
Dott. Marco Moroni (Statutory auditor)			
1	TEC ITALIA SRL	PRES. BOARD OF AUDITORS	APP. F.S. 31/03/2013
2	ASTON & COOPER SPA	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2012
3	CAIRO COMMUNICATION SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2010
4	CAIRO EDITORE SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2010
5	LOCAUTO SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
6	LOCAUTO RENT SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
7	WINE CAPITAL SPA	STATUTORY AUDITOR	APP. F.S. 30/04/2012
8	PUBLICITAS INTERNATIONAL SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
9	ELETTRODELTA SPA IN LIQUIDAZIONE	STATUTORY AUDITOR	APP. F.S. 31/12/2011
10	BETFAIR ITALIA SRL	STATUTORY AUDITOR	APP. F.S. 31/12/2012
11	IMMOBILIARE CASA DI VIA ULPIANO SRL	STATUTORY AUDITOR	APP. F.S. 31/12/2012
12	REVICOM SRL	CHAIRMAN OF THE BOARD	UNTIL REVOCATION
	Number of positions held in issuing companies	**1**	
	Total number of positions held	**12**	

Deloitte.

Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milano
Italia

Tel: +39 02 83322111
Fax: +39 02 83322112
www.deloitte.it

AUDITORS' REPORT PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
CAIRO COMMUNICATION S.p.A.

1. We have audited the consolidated financial statements of Cairo Communication S.p.A. and its subsidiaries the ("Cairo Communication Group"), which comprise the consolidated balance sheet as of December 31, 2010, and the consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's consolidated financial statements, whose data are presented for comparative purposes, reference should be made to our auditors' report issued on April 6, 2010.

3. In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Cairo Communication Group as of December 31, 2010, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

4. The Directors of Cairo Communication S.p.A. are responsible for the preparation of the report on operations in accordance with the applicable laws. Our responsibility is to express an opinion on the consistency of the annual report and of the specific section on corporate governance and ownership structure with reference to the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the annual report on corporate governance, with the consolidated financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the report on operations and the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998 paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) included in the specific section on corporate governance and ownership structure are consistent with the consolidated financial statements of Cairo Communication Group as of December, 31 2010.

DELOITTE & TOUCHE S.p.A.

Signed by
Giacomo Bellia
Partner

Milan, Italy
April 4, 2011

This report has been translated into the English language solely for the convenience of international readers.

Certification of the consolidated financial statements in accordance with art. 81-ter of Consob regulation no. 11971 of May 14, 1999 and subsequent amendments and additions

1. We, the undersigned, Urbano Cairo, in my position of Chairman of the Board of Directors, and Marco Pompignoli, in my position of Manager in charge of preparing corporate accounting documents of Cairo Communication S.p.A., taking also account of provisions set forth by Art. 154 bis, subsections 3 and 4 of Italian Legislative Decree no. 58 of February 24, 1998, hereby declare:

- the consistency with regard to the characteristics of the company and
- the actual application

of the administration and accounting procedures for the drafting of the financial statements over 2010.

2. It is also stated that:

2.1 the consolidated financial statements as at December 31, 2010:

- were drawn up pursuant to the applicable International Accounting Standards adopted by the European Union pursuant to regulation (EC) no. 1606/2002 of the European Parliament and Council of July 19, 2002;
- correspond to figures disclosed in the accounting books and records;
- supply a true and fair disclosure of the economic, financial and equity situation of the companies included in the consolidation scope;

2.2 the Annual Report includes a reliable analysis of the performance and management result, as well as the situation of the companies included in the consolidation scope, together with the description of the major risks and uncertainties to which they are exposed.

March 10, 2011

The Chairman of the Board of Directors

(Urbano Roberto Cairo)

The Manager in charge of preparing corporate accounting documents

(Marco Pompignoli)

CAIRO COMMUNICATION

Cairo Communication S.p.A.
Financial Statements as at 31 December 2010

Income statement as at 31 December 2010

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Net sales	1	137.472.305	131.583.700
Other operating revenues	2	528.493	216.968
Non-recurring income from Cairo-Telepiù arbitration	2	9.944.302	0
Costs for services	3	(128.587.898)	(122.997.293)
Rental expenses	3	(627.532)	(622.867)
Personnel costs	4	(2.468.951)	(2.253.933)
Amortization, depreciation, write-downs and provisions	5	(221.842)	(369.248)
Other operating costs	3	(255.923)	(368.833)
Operating profit		**15.782.954**	**5.188.494**
Net financial income	6	236.767	498.150
Investment income	7	7.462.017	8.421.432
Pre-tax profit		**23.481.738**	**14.108.076**
Income tax	8	(5.515.766)	(2.039.991)
Net profit from continuing operations		**17.965.972**	**12.068.085**
Net profit / (loss) from discontinued operations	9	(67.459)	(128.271)
Profit for the year		**17.898.513**	**11.939.814**

Statement of comprehensive income as at 31 December 2010

		Year ended 31 December 2010	Year ended 31 December 2009
Profit for the year		17.898.513	11.939.814
Profit (loss) from the evaluation of investments available for sale	12	(1.774.800)	(428.400)
Total statement of comprehensive income for the year		**16.123.713**	**11.511.414**

Balance sheet as at 31 December 2010

Assets	Notes	31 December 2010	31 December 2009
Property, plant and equipment	10	351.258	446.479
Intangible assets	11	151.717	210.255
Investments	12	15.941.310	17.716.110
Subsidiary receivables	13	386.457	386.457
Other non-current financial assets	13	12.420	33.229
Deferred tax assets	14	905.363	1.282.365
Total non-current assets		**17.748.525**	**20.074.895**
Trade receivables	15	1.656.058	4.029.745
Parent company receivables	24	61.355	0
Subsidiary receivables	16	85.590.005	88.344.144
Miscellaneous receivables and other current assets	17	8.947.842	2.021.791
Marketable securities	18	78.543	7.621.595
Cash and cash equivalents	19	32.663.459	17.831.907
Total current assets		**128.997.262**	**119.849.182**
Assets held for sale		0	0
Total assets		**146.745.787**	**139.924.077**

Equity and liabilities		31 December 2010	31 December 2009
Share capital	20	4.073.857	4.073.857
Share premium reserve	20	49.782.318	53.358.209
Retained earnings	20	521.695	2.295.204
Other reserves	20	1.056.509	1.056.509
Treasury shares	20	(2.351.293)	(2.351.293)
Net profit for the year	20	17.898.512	11.939.814
Total equity		**70.981.598**	**70.372.300**
Provision for retirement benefits and staff severance	21	667.996	595.078
Provisions for liabilities and charges	22	169.181	118.591
Total non-current liabilities		**837.177**	**713.669**
Trade payables	23	58.553.481	54.290.528
Parent company payables	24	2.781.404	385.446
Subsidiary payables	25	10.400.616	10.960.908
Tax liabilities	26	615.551	292.768
Other current liabilities	27	2.575.960	2.908.458
Total current liabilities		**74.927.012**	**68.838.108**
Liabilities held for sale or discontinued		0	0
Total liabilities		**75.764.189**	**69.551.777**
Total equity and liabilities		**146.745.787**	**139.924.077**

Cash flow statement

€ thousands	Year ended 31 December 2010	Year ended 31 December 2009
CASH AND CASH EQUIVALENTS	**17.832**	**40.549**
OPERATING ACTIVITIES		
Net profit	17.899	11.940
- non-recurring	*6.822*	*0*
Amortization	222	369
Investment write down	0	0
Net financial income	(7.699)	(8.920)
Income tax	5.516	2.040
- non-recurring	*3.122*	*0*
Net movement in provision for employee and retirement benefits	73	63
Net movement in provisions for liabilities and charges	51	(6.699)
Cash flow from operating activities before movements in working capital	**16.061**	**(1.206)**
(Increase) decrease in trade and other receivables	(1.860)	(14.545)
- non-recurring	*(5.941)*	*0*
Increase (decrease) in trade and other payables	5.766	(5.349)
(Increase) decrease in other assets	0	0
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	**19.968**	**(21.101)**
Income tax paid	(4.816)	(2.163)
Financial charges paid	(78)	(121)
TOTAL NET CASH FROM OPERATING ACTIVITIES (A)	**15.074**	**(23.385)**
INVESTMENT ACTIVITIES		
(Acquisition) net disposal in PPE and intangible assets	(68)	(67)
Interest and financial income received	315	860
Dividends received	7.462	8.428
Net increase in other non-current assets	21	1
NET CASH USED IN INVESTMENT ACTIVITIES (B)	**7.730**	**9.223**
FINANCING ACTIVITIES		
Decrease (Increase) in restricted bank deposits	7.543	6.526
- non-recurring	*7543*	*0*
(Acquisition) disposal of treasury shares	0	372
Dividends paid	(15.515)	(15.452)
NET CASH USED IN FINANCING ACTIVITIES (C)	**(7.972)**	**(8.554)**
NET CASH FLOW OF THE YEAR (A)+(B)+(C)	**14.831**	**(22.716)**
CLOSING CASH AND CASH EQUIVALENTS	**32.663**	**17.832**

Statement of change in equity

€ thousands	Share capital	Share premium reserve	Retained earnings	Other reserves	Treasury shares	Reserve of investments available for sale	Net profit for the year	Equity
€ thousands								
Balance as at 31 December 2007	**4.074**	**71.658**	**18.634**	**1.057**	**(2.186)**	**0**	**3.353**	**96.590**
Allocation of profit			3.353				(3.353)	0
Dividend distribution shareholders' meeting approval of financial statements as at 30/09/2007		(14.692)	(16.449)					(31.141)
Purchase of treasury shares					(1.007)			(1.007)
Net profit for the year							9.499	9.499
Balance as at 31 December 2008	**4.074**	**56.966**	**5.538**	**1.057**	**(3.193)**	**0**	**9.499**	**73.941**
Allocation of profit			9.499				(9.499)	0
Dividend distribution shareholders' meeting approval of financial statements as at 31/12/2008		(3.608)	(11.844)					(15.452)
Movements in treasury shares			(471)		842			371
Net profit for the year						(428)	11.940	11.512
Balance as at 31 December 2009	**4.074**	**53.358**	**2.722**	**1.057**	**(2.351)**	**(428)**	**11.940**	**70.372**
Allocation of profit			11.940				(11.940)	0
Dividend distribution shareholders' meeting approval of financial statements as at 31/12/2009		(3.575)	(11.940)					(15.515)
Net profit for the year						(1.775)	17.899	16.124
Balance as at 31 December 2010	**4.074**	**49.783**	**2.722**	**1.057**	**(2.351)**	**(2.203)**	**17.899**	**70.981**

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

€	Year ended 31 December 2010	related parties (*)	% of total	Year ended 31 December 2009	related parties	% of total
Net sales	137.472.305	137.452.409	100,0%	131.583.700	131.535.360	100,0%
Other operating revenues	528.493			216.968		
Non-recurring income from Cairo-Telepiù arbitration	9.944.302			0		
Costs for services	(128.587.898)	(26.609.769)	20,7%	(122.997.293)	(27.790.094)	22,6%
Rental expenses	(627.532)			(622.867)		
Personnel costs	(2.468.951)			(2.253.933)		
Amortization, depreciation, write-downs and provisions	(221.842)	(47.299)	21,3%	(369.248)	(55.467)	15,0%
Other operating costs	(255.923)			(368.833)		
Operating profit	**15.782.954**			**5.188.494**		
Net financial income	236.767	18.001	7,6%	498.150	36.105	7,2%
Investment income	7.462.017	7.462.017	100,0%	8.421.432	8.421.432	100,0%
Pre-tax profit	**23.481.738**			**14.108.076**		
Income tax	(5.515.766)			(2.039.991)		
Net profit from continuing operations	**17.965.972**			**12.068.085**		
Net profit / (loss) from discontinued operations	(67.459)	(67.459)	100,0%	(128.271)	(128.271)	100,0%
Net profit for the year	**17.898.513**			**11.939.814**		

(*) Related party transactions are analyzed in subsequent Note 29 of the Explanatory Notes

Balance sheet pursuant to Consob Resolution no. 15519 of 27 July 2006

€ Assets	31 December 2010	related parties (*)	% of total	31 December 2009	related parties (*)	% of total
Property, plant and equipment	351.258	49.124	14,0%	446.479	130.364	29,2%
Intangible assets	151.717	16.000	10,5%	210.255	24.000	11,4%
Investments	15.941.310	13.707.510	86,0%	17.716.110	13.707.510	77,4%
Subsidiary receivables	386.457	386.457	100,0%	386.457	386.457	100,0%
Non-current financial assets	12.420			33.229		
Deferred tax assets	905.363			1.282.365		
Total non-current assets	**17.748.525**			**20.074.895**		
Trade receivables	1.656.058	103.800	6,3%	4.029.745		
Parent company receivables	61.355	61.355	100,0%	0		
Subsidiary receivables	85.590.005	85.590.005	100,0%	88.344.144	88.344.144	100,0%
Miscellaneous receivables and other current assets	8.947.842			2.021.791		
Marketable securities	78.543			7.621.595		
Cash and cash equivalents	32.663.459			17.831.907		
Total current assets	**128.997.262**			**119.849.182**		
Assets held for sale	-			-		
Total assets	**146.745.787**			**139.924.077**		
Net equity and liabilities	**31 December 2009**			**31 December 2009**		
Share capital	4.073.857			4.073.857		
Share premium reserve	49.782.318			53.358.209		
Retained earnings	521.694			2.295.203		
Other reserves	1.056.509			1.056.509		
Treasury shares	(2.351.293)			(2.351.293)		
Profit for the year	17.898.512			11.939.814		
Total equity	**70.981.598**			**70.372.300**		
Provision for retirement benefits and staff severance	667.996			595.078		
Non-current borrowings	0			0		
Provisions for liabilities and charges	169.181	169.181	100,0%	118.591	118.591	100,0%
Total non-current liabilities	**837.177**			**713.669**		
Bank overdrafts	0			0		
Trade payables	58.553.481			54.290.528		
Parent company payables	2.781.404	2.781.404	100,0%	385.446	385.446	100,0%
Subsidiary payables	10.400.616	10.400.616	100,0%	10.960.908	10.960.908	100,0%
Tax liabilities	615.551			292.768		
Other current liabilities	2.575.960			2.908.458		
Total current liabilities	**74.927.012**			**68.838.108**		
Liabilities held for sale or discontinued	0			0		
Total liabilities	**75.764.189**			**69.551.777**		
Total equity and liabilities	**146.745.787**			**139.924.077**		

(*) Related party transactions are analyzed in subsequent Note 29 of the Explanatory Notes

Cash flow statement pursuant to Consob Resolution no. 15519 of 27 July 2006

€ thousands	Year ended 31 December 2010	related parties	Year ended 31 December 2009	related parties
CASH AND CASH EQUIVALENTS	**17.832**		**40.549**	
OPERATING ACTIVITIES				
Net profit	17.899	118.207	11.940	112.019
Amortization	222	47	369	55
Investment write-down	0		0	
Net financial income	(7.699)	18	(8.920)	(36)
Income tax	5.516		2.040	
Net movement in provision for employee and retirement benefits	73		63	
Net movement in provisions for liabilities and charges	51	51	(6.699)	(6.699)
Cash flow from operating activities before movements in working capital	**16.061**	**118.323**	**(1.206)**	**105.339**
(Increase) decrease in trade and other receivables	(1.860)	2.589	(14.545)	(54.898)
Increase (decrease) in trade and other payables	5.766	1.836	(5.349)	(14.274)
(Increase) decrease in other assets	0		0	
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	**19.968**	**122.748**	**(21.100)**	**36.167**
Income tax paid	(4.816)		(2.163)	
Financial charges paid	(78)		(121)	
NET CASH FLOW FROM OPERATING ACTIVITIES (A)	**15.074**	**122.748**	**(23.385)**	**36.167**
INVESTMENT ACTIVITIES				
(Acquisitions) / net disposals in PPE and intangible assets	(68)		(67)	
Interest and financial income received	315		860	
Dividends received	7.462	7.462	8.428	8.428
(Purchase) disposal of investments	0	0	0	0
Net increase in other non-current assets	21		1	
NET CASH USED IN INVESTMENT ACTIVITIES (B)	**7.730**	**7.462**	**9.223**	**8.428**
FINANCING ACTIVITIES				
Decrease (Increase) in restricted bank deposits	7.543		6.526	
(Purchase) disposal of treasury shares	0		372	
Dividends paid	(15.515)		(15.452)	
NET CASH USED IN FINANCING ACTIVITIES (C)	**(7.972)**	**0**	**(8.554)**	**0**
	0		0	
NET CASH FLOW OF THE YEAR (A)+(B)+(C)	**14.831**	**130.210**	**(22.716)**	**44.596**
CLOSING CASH AND CASH EQUIVALENTS	**32.663**		**17.832**	

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Main activities

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

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

Figures are shown in thousands of Euro.

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

The income statement and the balance sheet are presented in euro, whilst the cash flow statement, the statement of change in equity and the amounts in the explanatory notes are presented in thousands of euro.

As Parent Company, Cairo Communication S.p.A has also prepared the consolidated financial statements of the Cairo Communication Group as at 31 December 2010.

Basis of preparation

Structure, form and content of the financial statements

The financial statements of Cairo Communication S.p.A. as at 31 December 2010 have been prepared in accordance with IFRS international accounting standards issued by the International Accounting Standard Board ("IASB") and approved by the European Union, as well as with the provisions arising from art. 9 of Legislative Decree no. 38/2005. The term IFRS is used to mean all the international accounting standards ("IAS"), and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC").

For completeness of information, the following appendices are supplied as an integral part of the Explanatory Notes:

- Appendix no. 1: List of shareholdings pursuant to art. 2427, paragraph 5 of the Civil Code;
- Appendix nos. 2 and 3: Summary draft financial statements as at 31 December 2010 of subsidiaries;
- Appendix nos. 4 and 5: Summary of the latest approved financial statements of subsidiaries.

The main accounting principles adopted are unchanged to those used for the last financial year, and are detailed below.

The financial statements are prepared on a going concern basis. The Company has evaluated that even in the presence of a difficult economic and financial period, significant uncertainties do not exist (as defined by paragraphs 25 and 26 of IAS 1) related to the continuity of operations in terms of both the profitability outlook of the Company and of the Group and of the organization of its capital structure.

Presentation and layout of the financial statements

The **Income Statement** is presented according to costs by their nature, highlighting intermediate operating results and pre-tax results, and, in order to allow a better measure of normal operating management performance. Furthermore, cost and revenue components deriving from events or transactions which by their nature or size are considered non-recurring, are also separately identified in the notes.

These transactions can also be defined as such according to significant non-recurring events and transactions by Consob Communication No. 6064293 of 28 July 2006, differing from the definition of "atypical and/or unusual transactions" by the same Communication, which differs from the definition of "atypical and/or unusual transactions" held in the in the same Communication, under which atypical and/or unusual transactions are those which, owing to their significance/relevance, nature of the counter-parties, object of the transaction, procedure to establish the transfer price and timing of the event (proximity to year end), may give rise to doubts regarding accuracy and completeness of the information in the financial statements, or to conflicts of interest, or to the preservation of company equity, or to the protection of minority shareholders. The economic effect of discontinued operations is shown in a single line of the income statement entitled "Net profit/loss from discontinued operations", according to IFRS 5.

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

- profit and loss that could be directly charged to equity (for instance, actuarial loss generated by the evaluation of defined-benefit plans),
- the effects of the evaluation of derivative instruments hedging future cash flows,
- the effects of the evaluation of investments available for sale,
- the effects arising from any change in accounting standards.

The **Balance Sheet** is presented according to the allocation of assets and liabilities between current and non-current, indicating, on two separate lines, "Assets intended for sale" and "Liabilities of operations to be sold or discontinued", according to IFRS 5. Specifically, an asset or a liability is classified as current when it satisfies one of the following criteria:

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

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

The **Cash Flow Statement** has been prepared applying the indirect method in which the operating result is adjusted for the effect of transactions of a non-monetary nature, for whatever deferral or accrual of previous or future operating receipts or payments and for elements of revenues or costs connected to funding fluctuations derived from investment or financial activities. Income and expenses relating to medium or long-term financial operations and those relating to hedging instruments and dividends paid are included in financing activities.

The **statement of change in equity** shows the variations arising in equity relating to:

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

and separately income and expenses defined as *"variations generated by transactions with non-owners"*, also shown in the statement of comprehensive income.

For each significant item detailed in the above mentioned reports, reference is made to subsequent notes in which relevant information is provided, with details also on composition and variations versus the previous year.

Furthermore, it should be noted that in order to comply with Consob Resolution No. 15519 of 27 July 2006, "Report Formats", in addition to the required formats, additional formats have been provided on the statement of comprehensive income and balance sheet, showing material balances or related party transactions separately for each balance sheet or income statement item.

Revenues and cost recognition

Revenues and costs and income and expenses are recognized according to their business nature and on an accruals basis, specifically:

- Revenues are recorded according to the probability with which the company will enjoy their economic benefits and in the extent to which their value can be reliably determined. Revenues are stated net of any ultimate adjustments.
- Advertising revenues are recognized at the moment the advertisement is broadcast or published or provision of services offered.
- Costs are recorded in the financial statements according to the same criteria for revenue recognition on an accruals basis, and according to the prudence concept.

- Interest payable and receivable are recorded on an accruals basis.
- Dividends are recognized only as from when the shareholders' right to the dividend payment has been established, and only when resulting from a profit distribution following the acquisition of the investment; in the case, however, of a profit distribution prior to the acquisition of their relevant shares, such dividends are treated as a reduction in the cost of the relevant shares.
- The rebilling of leasehold costs is recorded as a reduction in the cost to which they relate.

<u>Taxes</u>

Tax for the year corresponds to the sum of current and deferred taxes.

Current taxes are based upon taxable income for the year. Taxable income differs from net income reported in the income statement because it excludes positive and negative items that will be taxable or deductible in other periods and because it excludes tax free or tax deductible items.

Cairo Communication and its subsidiaries Cairo Editore S.p.A., Cairo Pubblicità S.p.A., Diellesei S.p.A. in liquidation, Cairo Due S.r.l. and Cairo Publishing S.r.l. have adhered to the national tax consolidation agreement of UT Communications S.p.A. pursuant to art. 117/129 of the Unified Income Tax Act (TUIR).

The consolidation agreement, which regulates economic aspects pertaining to the sums deposited or calculated against the advantages or disadvantages arising from the consolidated tax return, also allows for any increased costs or decreased benefits incurred by the Company, by adhering to this procedure, to be repaid by the Parent Company.

UT Communications S.p.A. acts as a consolidating company and determines a unique taxable base for the group of companies that adheres to the national tax consolidation agreement, which thereby benefits from the ability of compensating taxable profits with taxable losses in one tax return.

Each company that adheres to the national tax consolidation agreement transfers its taxable profit or loss to the consolidating company - for any such taxable profit reported by a subsidiary, UT Communications S.p.A. records a credit equal to the amount of IRES payable - for any such taxable loss, reported by a subsidiary, UT Communications S.p.A. records a charge equal to IRES due on the loss that has been contractually transferred to Group level.

Deferred financial liabilities are generally recognized for all taxable timing differences, while deferred tax assets are recorded to the extent of the probability that there will be future taxable profits which will allow for the utilization of the different deductible timing differences. Deferred taxes are calculated on the basis of the tax rates that are foreseen will be in force at the moment of realization of the asset or discharge of the liability, based on tax legislation in force at the date of the financial statements. Where relevant, the effects of any changes in tax rate or tax legislation after the date of the financial statements are disclosed in the notes. Deferred financial assets and liabilities are reported at their net value when there is a legal right to compensate current taxes payable and receivable and when the taxes relate to the same taxation authority.

Employee termination benefit and severance pay provision

The nature of the provision for employee termination benefits and severance, mandatory for all Italian companies according to art. 2120 of the Civil Code, is one of deferred remuneration and is directly related to the employee’s length of service in the company, and to the employee’s actual remuneration received during their period of service.

From 1 January 2007, the Finance Law and subsequent decrees have introduced important changes to the nature of the provision for employee termination benefits and severance, including the employee’s choice of where the retirement benefits or severance amount due to them should be invested (into complimentary pension funds or into the “Treasury Fund” managed by INPS (the Italian Social Security system). As a result, amounts due to INPS and amounts due to supplementary pension funds are shown as “Defined Contribution Plans” whilst amounts invested in the employee termination benefits and severance fund up to 31 December 2006, in accordance with IAS 19, maintain the description of “Defined Benefit Plans”.

Non-current assets

Intangible assets

Costs, including accessory costs incurred for the acquisition of non-physical resources are reported among intangible assets when the cost is quantifiable and the asset is clearly identifiable and controlled by the Company, and where the use of the asset will generate probable future benefits.

These are valued at their acquisition or production price, including related costs – in the extent to which they are considered to have a finite life – and they are amortized to reflect their remaining useful economic lives.

The amortization periods of intangible assets of various types are as follows:

Concessions, patents, licenses, trademarks and similar rights (including application software licenses)	3 to 5 years
Custom application software	3 to 5 years

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

Property, plant and equipment

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

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

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

Property	3%
General equipment	20%
Automotive vehicles	20%-25%
Plant and machinery	10%
Business furniture and equipment	10%-12%
Electronic equipment	20%

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

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

The remaining useful lives of assets are reviewed annually and if incremental maintenance or other work has been carried out which changes the remaining useful life of the investment, these are adjusted accordingly.

Incremental maintenance and other costs producing a significant and tangible increase in the productive capacity or security of assets, or lengthening its remaining useful life, are capitalized and depreciated. Ordinary maintenance costs are taken directly to the income statement.

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

Decreases in value of PPE and intangible assets

At least once a year, the company reviews the book value of its tangible and intangible assets with an indefinite useful life, and of its investments, to check for signs of any decrease in value, and whenever there are potential signs of a decrease in value in PPE and intangible assets with a finite useful life, in order to determine whether such assets may have suffered any decrease in value. When such signs are present, the book value of the asset is reduced to reflect its realizable value. The realizable value of an asset is the greater of its fair value less sale costs, and its value in use. The fair value of a listed investment is determined according to its market price. In the absence of market values, or when the market value is not considered to be representative of the real value of the investment, valuation estimates and methods are applied based on data which is in any case evident on the market.

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

Excluding goodwill, when the loss in the value of an asset no longer applies or is reduced, the book value of the asset is increased to the new estimated realizable value, which may not exceed the value which would have been determined had no loss in value been recognized.

Investments

Subsidiaries and associates

Investments in subsidiaries and associates are recognized at cost and adjusted for any loss in value.

Any excess in value between the purchase price at the time of acquisition and the company's share of equity at current values is therefore included in the book value of the investment.

Investments in subsidiaries and associates are subject to impairment testing at least once a year, or more frequently if deemed necessary. Whenever there is evidence that such investments have lost value, this is reflected as a write down in the income statement. Should the company's share of losses in an investment exceed the book value of the investment, and the company is obliged to reflect those losses, the value of the investment is written off and the share of any such losses is shown as a provision in liabilities. Whenever a loss in value is reduced, this is recorded as a reinstatement of the cost in the income statement.

Other investments (available for sale)

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

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

Subsidiary and associate receivables

Non-income bearing loans made to subsidiaries and associates are recognized as non-current financial assets.

Current assets and liabilities

Receivables

Trade and other receivables are recorded at estimated net realizable value.

Investments

Investments are recognized and written off from the financial statements on the basis of their date of acquisition and sale. They are initially valued at cost, including all direct expenses associated with their acquisition. At the date of subsequent financial statements, investments that the Group is able to and intends to keep until maturity (shares held until maturity) are reported at their amortized cost, net of write-downs to reflect decrease in value.

Other investments which the Group does not intend to keep until maturity are classified as held for sale or available for sale and are valued at the end of each period at their fair value. When investments are held for sale, profits and losses derived from their fair value movements are taken to the income statement for the period. When investments are available for sale, however, profits and losses derived from their movements are taken to equity until they are sold or have decreased in value. In this case the profits or losses previously disclosed in equity are taken to the income statement for the period.

Valuations are regularly carried out to verify whether there is any objective evidence that an investment, whether taken individually or as a group of investments, may have suffered a loss in value. In the existence of such evidence the losses are recorded in the income statement for the period.

Cash and cash equivalents

This item comprises cash, bank deposits which can be withdrawn on demand, and other short-term high liquidity investments easily convertible to cash and not subject to risk of significant movements in value.

Borrowings, bank loans and overdrafts

Borrowings, interest-bearing bank loans and bank overdrafts are recorded net of transaction costs, and subsequently valued at amortized cost using the current interest rate method.

Trade payables

These are recorded at nominal value.

Provisions for liabilities and charges

Provisions for liabilities and charges are recorded in the financial statements when the company has a legal or implicit obligation resulting from a past event and for which a probability exists for the fulfillment of that obligation. The provisions reflect the best estimate based on information currently available to the Directors of the costs required to fulfill the obligation at the financial statements date, and are shown at the present value when the effect is significant.

Treasury shares

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

Dividends paid

Dividends payable are recorded as a movement in equity in the year they are approved by the Shareholders' Meeting.

Use of estimates

The preparation of the financial statements and their related notes, in application of the IFRS international accounting standards, requires that the Company carry out certain estimates and assumptions which affect the value of assets and liabilities and the information relating to assets and contingent liabilities at the financial statements date. The estimates and assumptions used are based on experience and on other factors considered relevant. The final results could differ from these estimates. The estimates mainly relate to provisions for risks relating to receivables, investment valuations, amortization, asset write-downs, taxation, provisions for liabilities and charges, and contingent liabilities.

The estimates and assumptions are reviewed regularly and the effects of each variation are recorded in the income statement in the period in which the revision was made to the estimate. The effects of such revisions are reflected in the periods on which they have effect, i.e. both in the current period, and in future periods, if relevant.

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

The items most susceptible to these uncertainties are the provision for bad debts, inventory write-downs, non-current assets (tangible and intangible assets and investments), pension funds and other post-employment benefits, and deferred tax assets.

A summary follows of all critical valuation processes used and key assumptions made by Management regarding the future in the process of applying accounting standards and that could have a significant effect on values recorded in the consolidated financial statements and for which there is a risk that significant adjustments to the book values of assets and liabilities could arise in the next financial period.

Provision for bad debts

The provision for bad debts reflects Management's estimate regarding the losses relating to the portfolio of receivables due by end customers. The provision for bad debts is based on losses expected by the Company, based upon past experience for similar receivables, current and past due dates, losses and receipts arising from the careful monitoring of the quality of receivables and from projections on market and economic conditions. The persisting uncertainty factors in the short and medium economic term, along with the resulting credit squeeze, could result in a further deterioration of the financial conditions of Company debtors compared to the worsening already considered in the quantification of the provision for bad debts recorded in the financial statements.

Deferred tax assets

Deferred tax assets are recorded to the extent of the probability that there will be future taxable profits which will allow for the utilization of the different deductible timing differences. The realizable values of deferred tax assets is periodically reviewed in respect of future taxable income foreseen in the Company's most recent plans.

Realizable values of non-current assets

Non-current assets include investments, property, plant and equipment, intangible assets, deferred tax assets and other financial assets. Management periodically reviews the book values of non-current assets held and used, and those of assets held for sale, as and when circumstances require such revision. This is performed using the estimate of cash flows expected from the use or sale of the asset and suitable discount rates to calculate the current value. In the absence of market prices or should the Stock Market price not be considered representative of the real value of the investment, estimates and valuations are however made based on data available on the market. When the book value of a non-current asset has suffered a loss in value, the Company recognizes a write-down equal to the difference between the greater of the book value of the asset and its realizable value from its use or sale, as determined according to the Company's most recent plans.

For the preparation of the financial statements as at 31 December 2010, and in particular in the performance of impairment tests on intangible and tangible assets, the different sectors of the Group have taken into account the expected 2011 performance, whose assumptions and results are in line with that disclosed in the section on "*significant events following year end and management outlook*". In addition, for financial periods subsequent to the plan, necessary adjustments have been cautiously made to take account of the deep market changes resulting from the current economic and financial crisis. The figures in this plan show no need for significant impairment.

Provisions for liabilities and charges

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

Risk management

The main fiscal, legal and financial risks to which Cairo Communication S.p.A. is exposed, as well as the policies put in place by Management for their management are explained in notes 28 and 30. Reference is made to the Directors' Report on Management regarding operational and business risks.

Accounting standards, amendments and interpretations applied from 1 January 2010

The following accounting standards, amendments and interpretations were applied for the first time by Cairo Communication starting from 1 January 2010:

- IAS 1 – *Presentation of financial statements*: the amendment requires a company to classify a liability as current if it does not retain an unconditional right to postpone its settlement for at least 12 months after the closing of the year, even in the presence of an option on the part of the counterparty which could result in a settlement by means of the issue of equity instruments.
- IAS 7 – *Cash flow statement*: the amendment requires that only cash flows deriving from expenses resulting in the booking of assets within the financial position can be classified in the cash flow statement as deriving from investment activities. Cash flows deriving from expenses which do not result in the booking of an asset (such as promotional, advertising or staff training costs) must be classified instead as deriving from operating activities.
- IAS 38 - *Intangible assets*: the revision of IFRS 3 in 2008 has established that the fair value of an intangible asset acquired in a business combination can be measured reliably if it is separable or has arisen from contractual or legal rights. IAS 38 was subsequently amended to

recognize this change to IFRS 3. The amendment in question has also clarified the techniques commonly used to measure the fair value of intangible assets that have no reference to an active market; in particular, such techniques include, as an alternative, the estimate of discounted net cash flows originated from the asset, the estimate of costs saved by the company by owning the asset and by not having to license it from another party, or the costs required to recreate or replace it (as in the cost method).

The following amendments and interpretations, applicable as from 1 January 2010, were considered irrelevant for Cairo Communication as they regard circumstances that do not apply as at the date of the current financial statements:

- IFRIC 17 – *Distribution of non-cash assets*, issued on November 27, 2008;
- IFRIC 18 – *Transfers of assets from customers*, issued on 29 January 2009;
- Amendments to IAS 28 – *Investments in associates* and to IAS 31 – *Investments in joint ventures*, following the changes made to IAS 27, issued on 10 January 2008.
- Amendment to IFRS 2 – *Share-based payments*: issued on 16 April 2009;
- Amendment to IAS 17 – *Leasing*, issued on 16 April 2009;
- Amendment to IFRIC 9 – *Reassessment of embedded derivatives* and to IAS 39 - *Financial instruments*, issued on 12 March 2009;
- Amendment to IFRS 2 – *Share-based payments: Group cash-settled share-based payment transactions*, issued in June 2009;
- Improvement to IAS 39 – *Financial instruments: recognition and measurement;*

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

On 4 November 2009, IASB issued a revised version of IAS 24 – Related party disclosures, simplifying the nature of information required for transactions with government-controlled related parties and clarifies the definition of related parties. The standard is applicable as from 1 January 2011.

On 12 November 2009, IASB published the IFRS 9 – *Financial instruments on the recognition and measurement of financial assets* applicable as from 1 January 2013, amended on 28 October 2010. The publication is the opening part of a process that aims to overhaul IAS 39. The new standard uses a single approach and is based on how a company manages its financial instruments and the contract cash flows of the financial assets to determine the measurement methodology replacing IAS 39. For financial liabilities, instead, the main change made regards accounting of fair value changes of a financial liability designated as financial liability measured at fair value in profit and loss, in the event these are attributable to changes in the credit risk of the liability. Based on this new principle, the changes must be presented in other comprehensive income. As at the date of the present financial statements, the relevant EU bodies have yet to complete the harmonization process for its application.

On 6 May 2010, IASB issued a series of changes to the IFRS ("improvements") applicable as from 1 January 2011; the following are those indicated by IASB as variations involving changes in the presentation, recognition and measurement of items, segregating those that will involve mere changes in terminology or editorial changes with a minimum accounting effect, or those that affect standards or interpretations that are not applied by Cairo Communication

- IFRS 7 - *Financial instruments: improved disclosure*: the changes emphasize interaction between qualitative and quantitative disclosures required by the principle regarding the nature and extent of risks arising from financial instruments. This should help users of financial statements to evaluate an entity's exposure to risks to financial instruments. Disclosure has been deleted for financial assets past due which have been renegotiated or impaired and for information regarding the fair value of collaterals.
- IAS 1 – *Presentation of financial statements*: the change requires an entity to provide a reconciliation of changes in each component of equity in the notes to the financial statements or in the financial statements.

The changes are expected to come into effect from financial years starting from 1 January 2011. As at the date of the present financial statements, the relevant EU bodies have yet to complete the harmonization process for application of the amendments.

On 7 October 2010, IASB issued several amendments to principle IFRS 7 – *Financial instruments: improved disclosure,* to be applied for financial periods starting from or after 1 July 2011. The amendments were issued to improve the understanding of transfers of financial assets and the possible effects arising from risks associated with the continuing involvement of the entity that has transferred such assets. The amendments require further information in the event a disproportionate amount of transfer transactions is undertaken around the end of the year. As at the date of the present financial statements, the relevant EU bodies have yet to complete the harmonization process for application of the amendments.

The following amendments and interpretations, <u>not yet applicable</u>, are deemed irrelevant for Cairo Communication as they govern circumstances that do not appear as at the date of the present financial statements:

- Amendment to IAS 32 - *Financial instruments: Presentation* issued on 8 October 2009 and applicable retrospectively as from 1 January 2011;

- IFRIC 14 – *Prepayments of a minimum funding requirement*, issued on 26 November 2009, applicable as from 1 January 2011;
- IFRIC 19 – *Extinguishing financial liabilities with equity instruments*, issued on 26 November 2009, applicable as from 1 January 2011.

NOTES TO THE INCOME STATEMENT

1. Net sales

Net sales were Euro 137,472 thousand (Euro 131,584 thousand as at 31 December 2009). Their composition, versus 2009, is shown below:

Net sales (€ thousands)	**31/12/10**	**31/12/09**
Print media advertising space sales	45	46
Cairo Pubblicità TV sub-concession	104,638	97,700
Cairo Pubblicità print media sub-concession	28,381	29,600
Cairo Pubblicità Web sub-concession	819	686
Internet advertising	-	2
Group services	3,502	3,502
Other sales to associates	87	48
Gross revenues	**137,472**	**131,584**

Sales are realized exclusively in Italy and an analysis by geographic region is pointless.

In 2010, sales sub-concession fees by Cairo Pubblicità S.p.A.:

- for TV advertising sales, amounting to Euro 104,638 thousand.
- print media advertising sales, amounting to Euro 28,381 thousand.
- Internet advertising sales, amounting to Euro 819 thousand.

In 2010 Cairo Pubblicità continued to operate on behalf of Cairo Communication under a sub-concession agreement for advertising sales in print media (magazines of Cairo Editore/Editoriale Giorgio Mondadori and Editoriale Genesis), on TV (La7, La7d and Cartoon Network, Boomerang and CNN theme channels) and the Internet, invoicing customers directly and crediting Cairo Communication with a share of these revenues.

Other sales to associates (Euro 87 thousand) relate to administrative services provided to Torino FC S.p.A., related in that it is ultimately controlled by UT Communications S.p.A.

Apart from providing advertising services, the Cairo Communication also provides services in administration, auditing, financial analysis, debt management and collection and marketing, to other Group companies. Such services are subject to contracts which are revised annually. Sales to Group companies deriving from these activities during the period were as follows:

Group services (€ thousands)	**31/12/10**	**31/12/09**
Cairo Pubblicità S.p.A.	3,000	3,000
Il Trovatore S.r.l.	22	22
Cairo Editore S.p.A.	480	480
Total	**3,502**	**3,502**

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

Other operating revenues

Other operating revenues were Euro 528 thousand (Euro 217 thousand as at 31 December 2009) and can be analyzed as follows:

Other operating revenues (€ thousands)	**31/12/10**	**31/12/09**
Other revenues	1	149
Contingent assets	527	68
Total	**528**	**217**

Non-recurring income from Cairo-Telepiù arbitration

In 2010, under the arbitration award issued on 27 January 2010, the 10-year advertising concession contract signed in May 1998 between Cairo TV and Telepiù S.r.l. was terminated through act and default of Telepiù. Telepiù was ordered to pay damages to Cairo Communication (as acquirer of Cairo TV) for the amount of Euro 11.7 million (the award also acknowledged payment of Euro 1 million for damages to Telepiù), as well as approximately Euro 0.8 million for defence and arbitration costs.

The outcome of the arbitration benefited the consolidated income statement of the year, netted against those assets related to the Telepiù-Cairo TV advertising concession contract entered in the financial statements as at 31 December 2009, specifically, other receivables of approximately Euro 1.6 million, referable to the Telepiù's share of loss accrued on receivables from advertising clients, under the advertising concession contract (which provided for a share of loss to be debited to

Telepiù) the amount of which was absorbed in the damages liquidated to Cairo as a result of the arbitration.

3. Costs for services, rental expenses and other operating costs

Costs for services were Euro 128,588 thousand (Euro 122,997 thousand as at 31 December 2009). Such costs are detailed as follows, versus 2009:

Costs for services (€ thousands)	**31/12/10**	**31/12/09**
Publishers' fees	27,440	28,570
TV publishing fees	97,158	90,588
Web publishing fees	747	649
EGM license fees	-	150
Consultancy and collaborations	697	742
Cairo Communication Board of Directors' compensation	1,057	481
Cairo Communication Board of Auditors' compensation	58	58
Other administration and general expenses	1,431	
Technical expenses	-	4
Total	**128,588**	**122,997**

In 2010 costs for "TV publishers' fees" increased parallel to the growth of TV advertising revenues.

- Costs for services include:
- the share of revenues due to Cairo Editore under the advertising concession contract on its publications ("For Men Magazine", "Natural Style", "Settimanale DIPIU'", "DIPIU' TV" and weekly supplements "Settimanale DIPIU' e DIPIU'TV Cucina" and "Settimanale DIPIU' e DIPIU'TV Stellare", "Diva e Donna" and "TV Mia") and of its division Editoriale Giorgio Mondadori (Bell'Italia", "Bell'Europa", "In Viaggio", "Airone", "Gardenia", "Arte" and "Antiquariato"), amounting to Euro 26,298 thousand,
- the share of revenues due to Cairo Publishing under the advertising concession contract on "Catalogo di Arte Moderna" (CAM), amounting to Euro 204 thousand.

Rental services amounted to Euro 628 thousand (Euro 623 thousand as at 31 December 2009) and refer mainly to rental fees paid for property and fees for the hire of office equipment.

Other operating expenses amounted to Euro 256 thousand (Euro 369 thousand as at 31 December 2009) and refer to contingent liabilities of Euro 148 thousand and other expenses of Euro 108 thousand.

4. Personnel costs

These can be analyzed as follows:

Personnel costs (€ thousands)	**31/12/10**	**31/12/09**
Wages and salaries	1,728	1,585
Social security	648	585
Other costs	2	4
Provision for retirement benefits	91	80
Total	**2,469**	**2,254**

5. Amortization, depreciation, write-downs and provisions

These can be analyzed as follows:

Amortization, depreciation, write-downs and provisions (€ thousands)	**31/12/10**	**31/12/09**
Intangible assets amortization	93	218
Property, plant and equipment depreciation	129	151
Total	**222**	**369**

6. Net financial income

Net financial income amounted to Euro 236 thousand and is broken down as follows:

Net financial income (€ thousands)	**31/12/10**	**31/12/09**
Bank and deposit interest income	287	518
Other	8	21
Interest due from Cairo Editore	16	78
Interest due from Cairo Publishing	2	2
Total financial income	**313**	**619**

	31/12/10	31/12/09
Bank interest payable	0	0
Other interest payable	(77)	(76)
Interest payable to Immobiledit	0	(45)
Investment write-downs	0	0
Total financial expenses	**(77)**	**(121)**
Net financial expenses	**236**	**498**

Interest receivable from Cairo Editore is due on the installment payments made by this company for its purchase of Editoriale Giorgio Mondadori during the 2004/2005 financial year (merged by incorporation in 2009), fully settled in 2010.

.*.*.

7. Investment income and expense

This item mainly includes dividends received during the year from subsidiaries Cairo Pubblicità S.p.A. (Euro 713 thousand) and Cairo Editore S.p.A. (Euro 6,751 thousand).
As at 31 December 2009, the item mainly included dividends received from subsidiaries Cairo Pubblicità S.p.A. (Euro 1,770 thousand) and Cairo Editore S.p.A. (Euro 6,653 thousand).

.*.*.

8. Income tax

Income tax for the year amounted to Euro 5,516 thousand. According to the relevant accounting standard, it should be noted that the amount related to deferred tax assets is due to expenses whose fiscal deductibility is deferred, as part of the income tax accrual.

Tax (€ thousands)	31/12/10	31/12/09
Current tax		
- Ires	4,405	1,731
- Irap	734	290
Deferred tax assets	377	19
Total	**5,516**	**2,040**

The reconciliation of tax liabilities and theoretical income tax can be analyzed as follows:

	31/12/10	31/12/09
Pre-tax profit	**23,415**	**13,980**
Theoretical income tax (27.5%)	**6,439**	**3,844**
Tax effect of dividends received	(1,950)	(2,202)
Tax effect of other permanent differences	293	108
Irap	734	290
Income tax for the year	**5,516**	**2,040**

For a clearer understanding of the reconciliation of tax liabilities and theoretical income tax charge, IRAP has not been taken into account as this is not based on profit before tax, and this would generate a distorting effect between one year and the other. However, the theoretical income tax charge has been calculated using the IRES income tax rate in force as at 31 December 2010, equal to 27.5%.

..*

9. Net profit / (loss) from discontinued operations

This includes the allocation of Euro 67 thousand for the loss recorded during the year by the subsidiary Diellesei S.p.A. in liquidation.

NOTES TO THE BALANCE SHEET

10. Property, plant and equipment

As at 31 December 2010, this item amounted to Euro 351 thousand, down Euro 95 thousand versus 31 December 2009. Movements can be broken down as follows:

Description (€ thousand)	At cost	Revaluation	Provision for depreciation	Net value 31/12/2009	Net change	Net value 31/12/2010
Motor vehicles	343	0	(250)	93	(37)	56
Plant (various)	67	0	(64)	3	(3)	0
Furniture and fittings	324	0	(164)	160	1	161
Communication equipment	70	0	(53)	17	(9)	8
Electronic office equipment	914	0	(772)	142	(32)	110
Equipment (various)	124	0	(118)	6	(2)	4
Mobile phones	18	0	(14)	4	0	4
Leasehold improvements	192	0	(171)	21	(13)	8
Total other assets	**2,052**	**0**	**(1,606)**	**446**	**(95)**	**351**

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

Description (€ thousand)	Additions/ (Disposals)	Depreciation on Additions/ (Disposals)	Depreciation	Net change
Motor vehicles	0	0	(37)	(37)
Plant (various)	0	0	(3)	(3)
Furniture and fittings	13	0	(12)	1
Communication equipment	0	0	(9)	(9)
Electronic office equipment	33	0	(65)	(32)
Equipment (various)	0	0	(2)	(2)
Mobile phones	1	0	(1)	0
Leasehold improvements	0	0	(13)	(13)
Total	**47**	0	**(142)**	**(95)**

Tangible assets have not been subject to revaluation.

Property, plant and equipment also includes leasehold improvement costs depreciated over the lifetime of the lease contract.

.*.*.

11. Intangible assets

As at 31 December 2010, intangible assets amounted to Euro 152 thousand, decreasing by Euro 59 thousand versus 31 December 2009. Movements in intangible assets during the period are as follows:

Description (€ thousands)	At cost	Provision for amortization	Net value as at 31/12/2009	Net change	Net value as at 31/12/2010
EGM license contract	780	(780)	0	0	0
Software	2,298	(2,112)	186	(51)	135
Total concessions, licenses and brands	**3,078**	**(2,892)**	**186**	**(51)**	**135**
Multi-year financial expenses	116	(116)	0	0	0
Website design costs	169	(145)	24	(8)	16
Total other assets	**285**	**(261)**	**24**	**(8)**	**16**
Total intangible assets	**3,363**	**(3,153)**	**210**	**(59)**	**152**

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

Description (€ thousands)	Additions	Disposals	Amortization	Net change
Software	21	0	(72)	(51)
Total concessions, licenses and brands	**21**	**0**	**(72)**	**(51)**
Website design costs	0	0	(8)	(8)
Total intangible assets	**21**	**0**	**(80)**	**(59)**

Website design costs include the residual amount (Euro 16 thousand) on the cost charged in 2007 by the subsidiary Il Trovatore.

Expenses incurred for procedures and programmes are amortized over a period between 3 and 5 financial years.

.*.*.

12. Investments

- Investments in subsidiaries and other companies

As at 31 December 2010, investments amounted to Euro 15,941 thousand, down Euro 1,775 thousand versus 31 December 2009

Description (€ thousands)	Net value as at 31/12/2009	Increases	Effects of fair value measurement	Net value as at 31/12/2010
Diellesei S.p.A. in liquidation	0	-	-	0
Cairo Sport S.r.l.	10	-	-	10
Cairo Due S.r.l. (former Cairo Web S.r.l.)	132	-	-	132
Il Trovatore S.r.l.	357	-	-	357
Cairo Editore S.p.A.	6,273	-	-	6,273
Cairo Publishing S.r.l.	1,595	-	-	1,595
Cairo Pubblicità S.p.A.	5,340	-	-	5,340
Total subsidiaries	**13,707**	**-**	**-**	**13,707**
Dmail Group	4,009	-	(1,775)	2,234
Total other companies	**4,009**	**-**	**(1,775)**	**2,234**
Total investments	**17,716**	**-**	**(1,775)**	**15,941**

Subsidiaries

In 2010, the liquidation of the subsidiary Diellesei S.p.A. continued, which generated a net loss of Euro 67 thousand.

Annex 2 details the information required by paragraph V of art. 2427 of the Civil Code. Information as at 31 December 2010 is derived from the draft financial statements approved by the Board of Directors of each direct and/or indirect subsidiary.

For more complete information, a comparison between the book value in the financial statements and the value derived from the application of the equity method is provided for each investment in the following table.

Description	Equity 31/12/2010 (*)	Ownership %	Value with the equity method (*) (a)	Financial statements book value (b)	Difference (a-b)
Cairo Editore S.p.A.		99.95%	21,632	6,273	15,359
Cairo Due S.r.l.		100%	93	132	(39)
Il Trovatore S.r.l.		80%	193	357	(164)
Cairo Pubblicità S.p.A.		100%	8,539	5,340	3,199
Diellesei S.p.A. in liquidation		60%	(170)	(170)	0
Cairo Publishing S.r.l.		100%	317	1,595	(1,278)
Cairo Sport S.r.l.		100%	10	10	0

(*)Values determined with IAS/IFRS accounting standards

The book values of the investments in Cairo Due S.r.l., Il Trovatore S.r.l. and Cairo Publishing S.r.l. are greater than their equity method valuations by Euro 39 thousand, Euro 164 thousand and Euro 1,278 thousand, respectively.

These values have undergone impairment tests to evaluate any potential existence of loss of value compared to their realizable values, as defined by their useful value, being the current value of their cash flow, estimated according to their expected results according to the most recent corporate budget and plans. The above mentioned tests have not identified a need to determine the financial statements book value of the investments, particularly as for Cairo Editore and Cairo Pubblicità, whose book value is covered in cash flow expected 2011 alone.

The main assumptions for the calculation of the useful values are as follows:

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

None of the above cases determined the need for value adjustments.

The company prepares the consolidated financial statements of the Group which, taking account of the investments held, is an essential document to ensure a complete understanding of the activities of the Group and of its investments.

Other companies

Investments in associates amounted to Euro 2,234 thousand (Euro 4,009 thousand as at 31 December 2009) referring to 765,000 shares in the listed company Dmail Group S.p.A., equivalent to 10% of its share capital.

As at 31 December 2010, the investment was written down to adjust the book value to the fair value, corresponding to the share's Stock Exchange price as at that date (Euro 2.92 per share), offset in equity for a total of Euro 1,775 thousand, an amount also recognized as an item in the statement of comprehensive income and classified as *loss from impairment of investments available for sale*.

The investment in Dmail Group is a financial instrument listed on a regulated market, therefore of hierarchical level 1.

..*

13. Subsidiary receivables and other non-current financial assets

- Subsidiary receivables

The item refers to a non-interest bearing shareholder loan made to the subsidiary Cairo Due S.r.l., amounting to Euro 386 thousand (Euro 386 thousand as at 31 December 2009).

- Non-current financial assets

As at 31 December 2010, non-current financial assets - mainly security deposits - amounted to Euro 12 thousand (Euro 33 thousand as at 31 December 2009).

..*

14. Prepaid tax assets

As at 31 December 2010, prepaid tax assets amounted to Euro 905 thousand (Euro 1,282 thousand as at 31 December 2009). These assets can be analyzed as follows:

Prepaid tax assets (€ thousands)	31/12/10 Timing differences	Tax effect	31/12/09 Timing differences	Tax effect
Provision for bad debts taxed	2,681	737	4,619	1,270
Entertainment expenses deductible in future years	1	1	8	2
Other timing differences	606	167	31	10
Total prepaid tax assets	**3,288**	**905**	**4,658**	**1.282**

Prepaid tax assets relate to the recognition, in the financial statements as at 31 December 2010, of deferred tax assets on the timing differences between the values of assets and liabilities reported in the financial statements and their tax values.

Prepaid tax assets are recorded to the extent they are considered recoverable depending on the presence of future taxable profits in which timing differences will be reversed. Management periodically reviews the estimates underlying the recoverability of these amounts.

15. Trade receivables

Trade receivables due from customers amounted to Euro 1,656 thousand, down Euro 2,374 thousand versus 31 December 2009. These are broken down as follows:

Trade receivables (€ thousands)	**31/12/10**	**31/12/09**	**Change**
Trade receivables	4,288	8,599	(4,311)
Provision for bad debts	(2,632)	(4,569)	1,937
Total trade receivables	**1,656**	**4,030**	**(2,374)**

Since 2009, Cairo Communication has operated on the advertising sales market on a sub-concession basis with subsidiary Cairo Pubblicità, which invoices directly to its clients and returns a share of the revenues to its parent company. Current receivables arising deriving from this activity accrue from the subsidiary.

The ageing of trade receivables by due date is as follows:

31 December 2010 (€ thousands)	Current	Due between 30 and 60 days	Due between 61 and 90 days	Due between 91 and 180 days	Due more than 180 days	Total
Trade receivables	129	0	0	272	3,887	4,288
Provision for bad debts	0	0	0	(23)	(2,609)	(2,632)
Trade receivables	**129**	**0**	**0**	**249**	**1,278**	**1,656**

31 December 2009 (€ thousands)	Current	Due between 30 and 60 days	Due between 61 and 90 days	Due between 91 and 180 days	Due more than 180 days	Total
Trade receivables	256	0	39	101	8.203	8.599
Provision for bad debts	(5)	0	(1)	(3)	(4,560)	(4,569)
Trade receivables	**251**	**0**	**38**	**98**	**3,643**	**4,030**

Trade receivables are reflected net of the provision for bad debts that has been determined taking account of both specific collection risks and general market collection risks. This allowance also takes into account the allocation to the Company's media clients of a percentage of losses on receivables, equal to the percentage of sales revenues allocated, pursuant to advertising space sales contracts signed between the two parties. The provision for bad debts therefore represents the share of potential losses on receivables on advertising space sales.

16. Subsidiary receivables

Subsidiary receivables amounted to Euro 85,590 thousand, down Euro 2,754 thousand versus 31 December 2009. Receivables from subsidiaries include:

Subsidiary receivables (€ thousands)	**31/12/10**	**31/12/09**
Cairo Due S.r.l.	58	58
Cairo Editore S.p.A.	2,893	8,361
Il Trovatore S.r.l.	285	259
Diellesei S.p.A. in liquidation	-	4
Cairo Publishing S.r.l.	233	215
Cairo Pubblicità S.p.A.	82,121	79,447
Total subsidiary receivables	**85,590**	**88,344**

Receivables from Cairo Pubblicità S.p.A. (Euro 79,950 thousand as at 31 December 2010) are mainly receivables on the sub-concession contracts for print, TV and Internet advertising sales.

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

Receivables from Cairo Editore S.p.A. refer mainly to the return on the percentage of loss from receivables, in accordance with the current advertising concession contract, and to the above-mentioned centralized services.

As at 31 December 2009, receivables from Cairo Editore S.p.A. also included Euro 3,360 thousand, being the residual receivables from the unpaid sale price for the sale to Cairo Editore S.p.A. of Editoriale Giorgio Mondadori S.p.A., settled in September 2010.

.*.*.

17. Miscellaneous receivables and other current assets

These amount to Euro 8,948 thousand, up Euro 6,926 thousand versus 31 December 2009 and can be analyzed as follows:

Miscellaneous receivables and other current assets (€ thousands)	**31/12/10**	**31/12/09**	**Change**
Withholding taxes receivable from the State	0	53	(53)
Publishing receivables	0	0	0
Third-party receivables	8,613	1,766	6,847
Accrued income and prepaid expenses	335	203	132
Total miscellaneous receivables and other current assets	**8,948**	**2,022**	**6,926**

Withholding and prepaid taxes are taken as a deduction from the payment of taxes to relevant authorities.

Third-party receivables include Euro 7.5 million, the credit balance from Telepiù arising from the foregoing arbitration award, which Telepiù offset with the restricted deposit mentioned below in Note 18 “Marketable securities”, for grounds which Cairo has challenged in court. Telepiù has claimed to offset its liability by means of the deposit up to the amount, with receivables from invoices issued following the circumstances that took place after the termination of the concession contract, receivables challenged by Cairo which has kept the relevant liability recorded in the balance sheet (Euro 6.9 million).

As at 31 December 2009, third-party receivables included approximately Euro1.6 million referable to the Telepiù’s share of loss accrued on receivables from advertising clients, under the advertising concession contract (which provided for a share of loss to be debited to Telepiù) the amount of which was absorbed in the damages liquidated to Cairo as a result of the arbitration.

Accrued income and prepaid expenses amounted to Euro 335 thousand, up Euro 132 thousand versus 31 December 2009.

18. Marketable securities

The item can be analyzed as follows:

Marketable securities	**31/12/10**	**31/12/09**	**Change**
Restricted bank deposits	-	7,543	(7,543)
Other current financial assets	78	78	-
Total marketable securities	**78**	**7,621**	**(7,543)**

As at 31 December 2009, restricted bank deposits included cash deposited in a current account held jointly with Telepiù S.r.l. (Euro 7,543 thousand including interest accrued), subject to a pending arbitration award between Cairo Communication and Telepiù, according to the terms provided for in the agreement when the account was opened. Following the award issued on 27 January 2010, the deposit was released to Cairo Communication. Telepiù offsets it entirely against the damages settled by the Arbitration Board on grounds challenged by Cairo Communication in court in July 2010.

19. Cash and cash equivalents

Cash and cash equivalents amounted to Euro 32,663 thousand, up Euro 14,831 thousand versus 2009. The item can be broken down as follows:

Cash and cash equivalents (€ thousands)	**31/12/10**	**31/12/09**	**Change**
Bank and postal deposits	32,660	17,827	14,833
Cash and cash equivalents	3	5	(2)
Total	**32,663**	**17,832**	**14,831**

Cash management continues to be managed prudently, and is mainly carried out through the investment in deposits remunerated at interbank rates.

The **net financial position** of Cairo Communication S.p.A. as at 31 December 2010, compared with the position as at 31 December 2009, can be summarized as follows:

(€ thousands)	31/12/2010	31/12/2009	Change
Cash and cash equivalents	32,663	17,832	14,831
Restricted current account jointly held with Telepiù	-	7,543	(7,543)
Current fixed deposits	-	-	-
Marketable securities	79	79	-
Total	**32,742**	**25,454**	**7,288**
Payables to subsidiaries	-	-	-
Total	**32,742**	**25,454**	**7,288**

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

.*.*.

20. Equity

Equity as at 31 December 2010 was Euro 70,982 thousand, up Euro 610 thousand versus 31 December 2009, for the distribution of dividends approved by the Shareholders' Meeting (Euro 15,515 thousand), to profit for the year and to the fair value measurement of assets available for sale (Euro 1,775 thousand).

The Shareholders' Meeting of 28 April 2010 approved the distribution of a dividend of Euro 0.2 per share, including income tax, with detachment date (coupon n. 2 post-split) on 10 May 2010, for a total of Euro 15.515 thousand.

Share capital

The share capital as at 31 December 2010 was Euro 4,074 thousand, fully paid and subscribed, comprising 78,343,400 ordinary shares to which no nominal value is attributed.

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

Each share has the right to a proportion of the profit which has been approved for distribution and to a portion of the equity on liquidation and also has the right to vote, without limits as defined by the Law.

No securities having special rights of control have been issued.

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

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

The reconciliation between the number of shares in circulation as at 31 December 2010 and those in circulation as at 31 December 2009 is as follows:

	31/12/2009	Purchase of treasury shares	Disposal of treasury shares	31/12/2010
Ordinary shares issued	78,343,400	-	-	78,343,400
Less: treasury shares	(771,326)	-	-	(771,326)
Ordinary shares in circulation	77,572,074	-	-	77,572,074

Share premium reserve

As at 31 December 2010, the share premium reserve amounted to Euro 49,782 thousand.

Profit from previous years

As at 31 December 2010, the balance showed a positive Euro 522 thousand. The item includes the first time adoption reserve of IAS, which ended with a negative Euro 1,313 thousand.

Profits from previous years (€ thousands)	**31/12/2010**	**31/12/2009**
Profits from previous years	1.685	1.685
Profits from previous years – first time adoption reserve	(1,313)	(1,313)
Reserve for treasury share buyback	2,351	2,351
Reserve for investments available for sale	(2,203)	(428)
Total	**520**	**2,295**

The reserve for the purchase of treasury shares is restricted by law (art. 2357-ter of the Civil Code).

Other reserves

As at 31 December 2010, other reserves, amounting to Euro 1,057 thousand, unchanged versus the prior year, are broken down as follows:

Other reserves (€ thousands)	**31/12/2010**	**31/12/2009**
Legal reserve	815	815
Merger surplus reserve	225	225
Other reserves	17	17
Total	**1,057**	**1,057**

Treasury shares reserve

As at 31 December 2010, Cairo Communication held 771,326 treasury shares, or 0.985% of the share capital, subject to the requirements of art. 2357-ter of the Civil Code, for a value of Euro 2,351 thousand deducted from equity.

On 28 April 2010, after revoking a similar resolution adopted on 29 April 2009, the Shareholders' Meeting approved the proposal to acquire treasury shares in accordance with art. 2357 and subsequent articles of the Civil Code, for the purpose of stabilizing the Company share price and sustaining liquidity, and, if deemed necessary by the Board of Directors, of establishing a "shares stock" as provided in Consob regulation 16839/2009.

The Board was authorized to acquire treasury shares up to the maximum number permitted by law, for a period of 18 months from the date of authorization, by use of available reserves, including the share premium reserve, as resulting from the last approved annual financial statements. Specifically, the Board of Directors will be authorized to acquire treasury shares on one or more occasions, acquiring shares directly on the market and through authorized intermediary - according to the procedures provided by art. 144 (ii), paragraph 1, letter b of the Stock Exchange Regulations and relevant Instructions, and, in case such operations are carried out, according to accepted market practices, pursuant to the regulations introduced by Consob Resolution No. 16839/2009.

Minimum price and maximum acquisition price per share are set at an amount equal to the average official purchase price of the share on Borsa Italiana S.p.A. for the 15 working days preceding the purchase respectively reduced or increased by 20%, in any event within a maximum limit of Euro 6.5 per share. In case such operations are carried out according to accepted market practices, the purchase of treasury shares is subject to further limits, including price limits, provided for thereto.

The proposal of the Board also allows for the authorization to sell, on one or more occasions, any acquired treasury shares, setting the minimum sale price per share no lower than the minimum price calculated following the criteria adopted for their purchase. Should the treasury shares be sold according to accepted market practices pursuant to Consob Resolution 16839/2009, the sale of treasury shares shall be subject to further limits, including price limits, provided for thereto.

In 2010, as part of the buyback plans, no treasury shares were purchased or sold.

Profit for the year

This consists of net profit for the year of Euro 17,899 thousand (Euro 11,940 thousand as at 31 December 2009)

.*.*.

The following table shows equity items and indicates if they can be used and distributed, and tax restrictions if any:

(€ thousands)					Equity used over the previous three years	
Number/Description	**Amount**	**Possibility of use**	**Amount available**	**Amount subject to tax deferral**	**To cover losses**	**Other** (dividends)
Share capital	4,074	---	0	0	0	0
Treasury share reserve	2,352	---	0	0	0	0
Treasury shares	(2,352)	---	0	0	0	0
Share premium reserve	49,782	ABC	49,782(1)	0	0	(21,875)
Legal reserve	815	B	---	0	0	0
Other reserves	17	ABC	17	0	0	0
Merger surplus reserve	225	ABC	225	0	0	0
Retained profits	(1,829)	ABC		0	0	(40,233)
Total	**53,084**					
Non distributable portion			(1)	0	0	0
Residual distributable portion				0	0	0

Legend:
A – for increases in share capital
B – to cover losses
C – for distribution to shareholders
(1) In accordance with art. 2431 of the Civil Code, the entire amount of this reserve may be distributed as long as the legal reserve has reached the limit as defined by art. 2430 of the Civil Code

21. Provision for retirement benefits and staff severance

The provision for retirement benefits and staff severance amounted to Euro 668 thousand with a net increase of Euro 73 thousand versus 2009. The composition and movement of the item is shown as follows:

	Balance as at 31/12/09	Paid during the year	Accrued during the year	Balance as at 31/12/10
Employees	261	(18)	48	291
Managers	334	0	43	377
Total	**595**	**(18)**	**91**	**668**

..

The provision for retirement benefits and staff severance reflects allocations made for all employees as at the date of the financial statements, made in accordance with art. 2120 of the Civil Code. The liability so determined does not vary significantly from the liability that would result from an actuarial valuation.

The change in the composition of personnel during the year is summarized as follows:

	Headcount at the beginning of the year	Other changes	Headcount at year end	Average headcount
Executive managers	6	1	7	6
Managers	2	0	2	2
Employees	17	3	20	19
Total	**25**	**4**	**29**	**27**

.*.*.

22. Provisions for liabilities and charges

The provisions for liabilities and charges amounted to Euro 169 thousand, with a net increase of Euro 50 thousand versus 2009.

Provisions for liabilities and charges (€ thousands)	**Balance as at 31/12/09**	**Utilized**	**Released**	**Accrued**	**Balance as at 31/12/10**
Provision for client indemnity	17	(17)	0	0	-
Provision for investment risks	102	0	0	67	169
Total	**119**	**(17)**	**0**	**67**	**169**

As mentioned earlier, the provision for investment risks refers entirely to the subsidiary Diellesei S.p.A. in liquidation, made during the 2005/2006 year as a result of the subsidiary's equity deficit.

.*.*.

23. Trade payables

Trade payables amounted to Euro 58,553, up Euro 4,263 thousand versus 31 December 2009.

24. Parent company receivables and payables

Parent company payables amounted to Euro 2,781 thousand, up Euro 2,396 thousand versus 31 December 2009 and refer entirely to payables due to UT Communications generated by the national tax consolidation agreement, net of receivables (interest withholdings) transferred.

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

The consolidation agreement, which governs the financial aspects of amounts paid or received in return for the advantages or disadvantages resulting from the tax consolidation, specifically provides that any eventual greater charges or minor benefits that may accrue to the Company resulting from adhesion to the procedure, be suitably remunerated by the Parent Company. In relation to this, the financial statements as at 31 December 2010 include payables due to the parent company UT Communications S.p.A.

25. Subsidiary payables

Subsidiary payables amounted to Euro 10,400 thousand, down Euro 561 thousand versus 31 December 2009. The following table shows the breakdown of subsidiary payables that relate to services received in the ordinary course of business:

Subsidiary payables (€ thousands)	**31/12/10**	**31/12/09**
Cairo Editore S.p.A.	8,296	10,070
Cairo Due S.r.l.	38	39
Diellesei S.p.A. in liquidation	47	-
Cairo Pubblicità S.p.A.	1,662	735
Cairo Publishing S.r.l.	245	-
Il Trovatore S.r.l.	112	117
Total payables to subsidiaries	**10,400**	**10,961**

The payables due to Cairo Editore S.p.A. mainly refer to amounts due from the advertising concession contract on the publisher’s magazines.

26. Tax liabilities

Tax liabilities amounted to Euro 616 thousand, up Euro 323 thousand versus 31 December 2009. They are broken down as follows:

Tax liabilities (€ thousands)	31/12/10	31/12/09
VAT	15	83
Current IRAP taxes	444	56
Other tax liabilities	7	0
Payroll deductions - employees	102	103
Payroll deductions – contract workers	55	51
Total tax liabilities	**616**	**293**

As already mentioned, the taxable profit of Cairo Communication S.p.A., for IRES purposes, has been recorded as a payable to the parent company UT Communications S.p.A., in accordance with the national tax consolidation agreement.

27. Other current liabilities

Other current liabilities amounted to Euro 2,576 thousand down Euro 332 thousand versus 31 December 2009. They are broken down as follows:

Other current liabilities (€ thousands)	31/12/2010	31/12/2009
Payables to social security authorities	161	156
Other payables	1,354	1,224
Deferred income	1,061	1,528
Other accrued expenses and deferred income	0	0
Total other current liabilities	**2,576**	**2,908**

Accrued expenses and deferred income have been determined on an accruals basis and mainly relate to:

- interest accrued on the current account held jointly with Telepiù S.p.A. Following the award issued on 27 January 2010, the deposit, including interest accrued, was released in favor Cairo Communication. Telepiù offsets it entirely against the damages liquidated by the Arbitrators on grounds challenged by Cairo Communication in court in July 2010 based on the foregoing grounds, and also on the agreement which had established that interest payable from the opening date of the account to the release of the sums would have been paid along with the principal, pro-rata, to the appropriate parties in accordance with the award or agreement reached by the parties.

- income deriving from the rebilling of the share of print media bad debts, the losses of which have not been fully ascertained and have not been recorded in the income statement.

***

28. Commitments, risks and other information

Guarantees and commitments

Main guarantees given are as follows:

- a guarantee of Euro 16,8 million, expiring on 15 June 2011, by Banca Popolare di Milano to Telecom Italia Media S.p.A. (Telecom Group), securing payment of minimum guaranteed fees as set forth in the contract for the exclusive sale of television advertising space on La7.
- guarantees totaling Euro 16 thousand by bank and insurance institutes to customers, public bodies and owners of rented buildings.

***

Other information

The arbitration award issued on 27 January 2010 terminated through act and default of Telepiù the 10-year advertising concession contract signed in May 1998 between Cairo TV and Telepiù S.r.l. Telepiù was ordered to pay damages to Cairo Communication (as acquirer of Cairo TV) for the amount of Euro 11.7 million (the award also acknowledged payment of Euro 1 million for damages to Telepiù), as well as approximately Euro 0.8 million for defence and arbitration costs.

In August 2010, Cairo Communication filed a new arbitration against Telepiù to assess a breach by Telepiù of the contract under which it had transferred to the Company the entire share capital of Telepiù Pubblicità S.r.l. (renamed Cairo TV S.p.A) and for damages suffered by Cairo Communication as acquirer of Cairo TV. The Board of Arbitrators was formed on 5 November 2010 and is composed by prof. avv. Gerardo Broggini (president), prof. avv. Francesco Benatti (arbitrator appointed by the Company), and prof. avv. Vincenzo Roppo (arbitrator appointed by Telepiù). The meeting on 27 January set the terms for the briefs, with the final hearing scheduled on 11 May 2011.

The three-year advertising concession contract (2009-2011) for La7 signed in November 2008, renewed automatically for three more years if the contractual revenue targets are reached, sets minimum gross advertising revenues of Euro 120 million also in 2011 (target reached in 2009 and greatly exceeded in 2010), with minimum annual guaranteed fees for Telecom Italia Media of Euro 84 million (70%). In return for Cairo's commitment to minimum gross advertising revenues and minimum fees, Telecom Italia Media undertakes to maintain the annual share of La7 higher than or equal to 3% (with a contribution of the audience share of La7d – for 2010 and 2011 alone - within pre-established limits) and higher than or equal to 2.65% in prime time viewing. Should the shares drop below these thresholds, or further contractually established thresholds, Cairo is entitled to reduce the minimum guaranteed payment of Euro 84 million.

Taking also account of the share’s trend in the last quarter of 2010, in December 2010 Telecom Italia Media and Cairo agreed to re-examine the advertising concession contract of 19 November 2008. Specifically, for 2011 and for the possible 2012-2014 three-year period, both set additional annual advertising revenues targets (unguaranteed) versus the minimum annual revenues, proportional to the achievement by Telecom Italia Media of annual targets of share higher than the given 3% for La7’s share. Cairo’s achievement of these additional targets, or payment to Telecom Italia Media of equivalent dues, will entitle Cairo to renew the contract up to 31 December 2019. Otherwise, Telecom Italia Media is authorized to withdraw from the contract.

In December 2009, Telecom Italia Media and Cairo also renewed, until 2014, the concession contract for La7d, which had been signed in April 2010 for the 2010-2011 two-year period, with automatic renewal for a further three year period upon achievement of agreed revenues targets. The contract for the new La7d digital channel sets minimum gross advertising revenue in 2011 of Euro 8 million for a 0.2% share, with minimum guaranteed fees paid on a monthly basis to Telecom Italia Media of Euro 5.6 million. For 2011, variations in the share below 0.2% will imply reductions in minimum annual revenues and minimum guaranteed fees. For subsequent years, variations in the share above or below 0.2% will imply increases or reductions in minimum annual revenues and minimum guaranteed fees.

As the result of a VAT audit performed on Cairo Communication S.p.A., in their draft audit report, the Guardia di Finanza identified potential liabilities for 2002 and subsequent years (2003, 2004 and 2005) relating to the non-application of VAT on dealing rights charged to media centres, which were subsequently confirmed in their final audit report issued in January 2008 (for 2002) and in June 2008 (for 2003, 2004 and 2005), which the company has challenged. For all the periods in question, the Provincial Tax Commission of Milan has ruled in favour of the Company’s appeals. The Agenzia delle Entrate (Revenue Agency) has filed an appeal to the Regional Tax Commission of Milan against these decisions. On 21 April 2010, the Regional Tax Commission of Milan ruled in favour of the Agency’s appeal regarding the year 2002 on questionable grounds. To date, the 2003, 2004 and 2005 years are still awaiting discussion by the Regional Commission. Cairo Communication has appealed to the Court of Cassation against the sentence related to 2002, for which the tax claim amounts to Euro 41 thousand, in addition to sanctions of Euro 51 thousand. Based also on the advice of its tax consultants, the Directors believe there are fundamental reasons and rights to oppose the potential liabilities, and have therefore made no relevant accrual against them.

The Provincial Tax Commission of Milan, in its hearing of 18 October 2010, ruled in favour of the appeal by Cairo Editore S.p.A. regarding the tax assessment notice for 2004 illustrated in the notes to the financial statements as at 31 December 2009.

The Agenzia delle Entrate challenged the Company for its use, to offset payments made in 2007, of excess IRES from the tax return for the year ended 30 December 2006. While not challenging the relevant credit to Cairo, the Agency has refuted its use for offsetting purposes on grounds of non-compliance of procedures (specifically, the Agency claims that use of the credit would have required a formal credit transfer from the Company to the Company). On 6 July 2010, the Company received a tax demand, substantially for payment of Euro 28 thousand as interest, and Euro 145 thousand as sanctions, since the credit has not been unacknowledged. Based also on the advice of its tax consultants, the Directors believe there are fundamental reasons and rights to oppose the potential liabilities and have therefore made no relevant accrual against them.

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

***

29. Related party transactions

Transactions carried out by Cairo Communication with related parties and the effect on the financial statements can be shown as follows:

Receivables and financial assets (€ thousands)	**Trade receivables**	**Other receivables and current assets**	**Intra-group financial assets**	**Other current financial assets**
Parent company UT Communications	61	-	-	-
Subsidiaries of Cairo Communication Group				
Cairo Pubblicità S.p.A.	82,121		-	-
Cairo Editore S.p.A.	2,893	-	-	-
Cairo Due S.r.l.	58	-	386	-
Cairo Publishing S.r.l.	22	-	211	-
Il Trovatore S.r.l.	285	-	-	-
	85,440		**597**	**-**
Associates of UT Communications Group		-	-	-
Torino FC S.p.A.	104	-	-	-
Total	**85,544**		**597**	**-**

Payables and financial liabilities (€ thousands)	Trade payables	Other payables and current liabilities	Intra-group financial payables	Other current financial liabilities
Parent company UT Communications	-		2.784	-
Subsidiaries of Cairo Communication Group				
Cairo Pubblicità S.p.A.	1,663	-	-	-
Cairo Editore S.p.A.	8,342	-	-	-
Cairo Due S.r.l.	38	-	-	-
Cairo Publishing S.r.l.	245	-	-	-
Il Trovatore S.r.l.	112	-	-	-
	10,401	**-**	**2,784**	**-**
Associates of UT Communications Group				
Torino FC S.p.A.	-	-	-	-
Total	**10,401**	**-**	**2,784**	**-**

Income and expenses (€ thousands)	Operating income	Operating expenses	Financial income	Financial expenses	Investment income /(expenses)
Parent company UT Communications	-	-	-	-	-
Subsidiaries of Cairo Communication Group					
Cairo Pubblicità S.p.A.	136,841	-	713	-	-
Cairo Editore S.p.A.	502	(26,298)	6,767	-	-
Cairo Publishing S.r.l.	-	(204)	2	-	-
Il Trovatore S.r.l.	22	(108)	-	-	-
Immobiledit S.r.l.	-	-	-	-	-
Associates of UT Communications Group					
Torino FC S.p.A.	87	-	-	-	-
Total	**137,452**	**(26,610)**	**7,482**	**-**	**-**

Income and expenses in relation to subsidiaries can be analyzed as follows:

Income and expenses	Cairo Editore	Cairo Pubblicità	Cairo Publishing	Diellesei in liquidation	Il Trovatore	Torino FC
INCOME						
Sub-concession payment	-	133,841	-	-	-	-
Administrative services and use of serviced space	480	3,000	-	-	22	87
Recharged costs	22	-	-	-	-	-
Sale of advertising space	-	-	-	-	-	-
Interest income	16	-	2	-	-	-
Dividends	6,751	713	-	-	-	-
Total	**7,269**	**137,554**	**2**	**-**	**22**	**87**
EXPENSES						
Share of publishing costs	(26,298)	-	(204)	-	-	-
Internet services	-	-	-	-	(108)	-
Other recharges	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-
Total	**(26,298)**	**-**	**(204)**	**-**	**(108)**	**-**

Cairo Communication supplies a range of services to some of its subsidiaries and associates, mainly relating to management accounting software, use of serviced spaces, administration, finance, treasury, management control, credit management and marketing activities, to allow the individual companies to benefit from economies of scale and more efficient management.

In 2010 Cairo Pubblicità S.p.A. worked for Cairo Communication:

- as sub-lessee for print media advertising sales (Cairo Editore and Editoriale Genesis magazines);
- as sub-lessee of Cairo Communication for TV advertising sales (La 7 and theme channels under concession Cartoon Network, Boomerang, and CNN) and Internet advertising sales. Under these agreements, Cairo Pubblicità directly invoices clients and returns a percentage of proceeds to the sub-lessor.

In 2010 Cairo Communication and Cairo Editore S.p.A. signed contract for advertising sales on magazines “Airone”, “Bell’Italia”, “Bell’Europa”, “In Viaggio”, “Gardenia”, “Arte” and “Antiquariato”, “For Men Magazine”, “Natural Style”, “Settimanale DIPIU’”, “DIPIU’ TV” and weekly supplements “Settimanale DIPIU’ e DIPIU’TV Cucina” and “Settimanale DIPIU’ e DIPIU’TV Stellare”, “Diva e Donna” and “TV Mia”.

Interest receivable from Cairo Editore is due on the installment payments made by this company for its purchase of Editoriale Giorgio Mondadori (merged by incorporation in 2009).

In 2010, there were no transactions with the parent company (U.T. Communications) or with subsidiaries of the latter, except for the contract with Torino F.C. for the provision of administrative services such as bookkeeping; the agreement, rewritten in the second quarter of 2010, sets an annual fee of Euro 100 thousand (previously Euro 48 thousand).

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

30. Risk management

Liquidity risk

Cairo Communication is not exposed to liquidity risk, in that on one hand, significant financial resources are held with a net available positive financial position of Euro 32.7 million whilst on the other, it attempts to ensure that an appropriate ability to generate cash is maintained, even under the current market conditions.

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

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

Risk of foreign exchange and interest rate fluctuation

Cairo Communication is not exposed to the risk of foreign exchange and interest rate fluctuation, in that on one hand, there is no loan finance, whilst on the other hand operations are carried out exclusively in Italy, so all revenues are generated in the country and principal costs are incurred in Euro.

Interest rate risk only affects the yield on available cash. Specifically, with reference to the net financial position as at 31 December 2010, a one percentage point reduction in the interest rate would result in a reduction in annual financial income of approximately Euro 0.3 million.

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

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

Credit risk

Cairo Communication is exposed to credit risk, primarily in relation to its advertising sales activities. This risk is however mitigated by the fact that exposure is divided across a large number of clients and that credit monitoring and control procedures are in place.

It is of course possible that both the financial crisis and the uncertainty factors in the short and medium term could deteriorate, along with a consequent worsening in the limited availability of credit, which could have a negative impact on the quality of credit and on general payment terms.

31. Board of Directors' and Board of Auditors' compensation

Pursuant to art. 2427, section 16 of the Civil Code and as set forth in art.78 of the Issuers' Regulations of CONSOB, the Group discloses the following compensation awarded to the Directors, Auditors, General Managers and Managers with strategic responsibilities, including in subsidiaries, for the year ended 31 December 2010:

Name and surname	Position	Term of office	Term expiry date	Compensation	Benefits in kind *	Bonuses and other incentives	Other compensation **
Dr. Urbano R. Cairo	Chairman BoD	Jan.-Dec.2010	31/12/2010	150	7	-	855
Dr. Uberto Fornara	Managing Director	Jan.-Dec.2010	31/12/2010	474	4	-	330
Dr. Roberto Cairo	Director	Jan.-Dec.2010	31/12/2010	20	-	-	-
Avv. Marco Janni	Director	Jan.-Dec.2010	31/12/2010	40	-	-	-
Avv. Antonio Magnocavallo	Director	Jan.-Dec.2010	31/12/2010	40	-	-	-
Dr. Marco Pompignoli	Director	Jan.-Dec.2010	31/12/2010	290	3	-	335
Dr. Roberto Rezzonico	Director	Jan.-Dec.2010	31/12/2010	40	-	-	-
Dr. Mauro Sala	Chairman Board of Auditors	Jan.-Dec.2010	31/12/2010	24	-	-	14
Dr. Marco Moroni	Statutory auditor	Jan.-Dec.2010	31/12/2010	16	-	-	4
Dott.ssa Maria Pia Maspes	Statutory auditor	Jan.-Dec.2010	31/12/2010	16	-	-	9

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

- *Dr. Urbano Cairo: compensation pursuant to art. 2389, paragraph 3, Civil Code (Euro 130 thousand).*
- *Dr. Uberto Fornara: compensation pursuant to art. 2389, paragraph 3, Civil Code (Euro 454 thousand).*
- *Avv. Marco Janni: compensation for attendance in meetings of the Compensation Committee, Audit Committee and Related Party Committee (Euro 20 thousand);*
- *Avv. Antonio Magnocavallo: compensation for attendance in meetings of the Compensation Committee, Audit Committee and Related Party Committee (Euro 20 thousand);*
- *Dr. Marco Pompignoli: compensation pursuant to art. 2389, paragraph 3, Civil Code (Euro 270 thousand);*
- *Dr. Roberto Rezzonico: compensation for attendance in meetings of the Compensation Committee, Audit Committee and Related Party Committee (Euro 20 thousand).*

*** Other compensation refers to:*

- *Dr. Urbano Cairo: compensation for his duties performed for Cairo Editore (Euro 850 thousand) and other companies of the Group (Euro 5 thousand).*
- *Dr. Uberto Fornara: gross compensation as senior manager payable by Cairo Communication (Euro 224 thousand) and compensation for his duties performed for Cairo Pubblicità (Euro 100 thousand) and other companies of the Group (Euro 6 thousand).*
- *Dr. Marco Pompignoli: gross compensation as senior manager payable by Cairo Communication (Euro 140 thousand) and compensation for his duties performed for Cairo Pubblicità (Euro 190 thousand) and other companies in the Group (Euro 5 thousand).*

Managers of Cairo Communication S.p.A. holding strategic responsibilities are directors

On 28 January 2008, the Shareholders' Meeting of Cairo Communication S.p.A. had resolved on an annual compensation of Euro 200 thousand, which the meeting of the Board of Directors on 14 May 2008 had split up in, respectively, Euro 15 thousand and Euro 45 thousand as compensation due respectively to the Compensation Committee and to the Audit Committee. The remaining Euro 140 thousand was split up among the seven directors.

On 13 May 2010, the Board of Directors of Cairo Communication, upon proposal of the Compensation Committee, pursuant to art. 2389, paragraph 3 of the Civil Code, resolved to grant compensation to Chairman Urbano Cairo, Managing Director Uberto Fornara, and Director Marco

Pompignoli, who hold particular responsibilities, amounting respectively to Euro 130 thousand, Euro 60 thousand and Euro 90 thousand.

Under the decisions adopted by the Board of Directors on 11 February 2011, on the proposal of the Compensation Committee and the favourable opinion of the Related Party Committee, further compensation was established for 2010, specifically:

- for Managing Director Uberto Fornara - according to the variable compensation mechanism defined by the Board on 30 July 2010, based mainly on advertising revenue growth targets - Euro 394 thousand,
- for Director Marco Pompignoli – based on overall work quality assessments - Euro 180 thousand.

Mention must be made, also under Consob Communication n. DEM/11012984 of 24 February 2011, point 2.3, letters (a) and (f) that:

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

Mention must be made that there are no succession plans regarding executive directors.

Cairo Communication has no stock option plans in place at this time.

Positions held by Directors and Auditors in other Group companies are as follows:

Name and surname	Description		
Company	**Position**	**Term in 2010**	**Term expiry date**
Dott. Urbano Cairo			
Cairo Editore S.p.A.	Chairman of the BoD	from 01.01.10 to 31.12.10	F.S. 31/12/2012
Cairo Pubblicità S.p.A.	Chairman of the BoD	from 01.01.10 to 31.12.10	F.S. 31/12/2011
Cairo Publishing S.r.l.	Chairman of the BoD	from 01.01.10 to 31.12.10	F.S. 31/12/2010
Il Trovatore S.r.l.	Chairman of the BoD	from 01.01.10 to 31.12.10	F.S. 31/12/2011
Cairo Due S.r.l.	Chairman of the BoD	from 01.01.10 to 31.12.10	F.S. 31/12/2012
Dott. Uberto Fornara			
Cairo Pubblicità S.p.A.	Managing Director	from 01.01.10 to 31.12.10	F.S. 31/12/2011
Cairo Editore S.p.A.	Director	from 01.01.10 to 31.12.10	F.S. 31/12/2012
Cairo Due S.r.l.	Director	from 01.01.10 to 31.12.10	F.S. 31/12/2012
Name and surname	**Description**		
Company	**Position**	**Term in 2010**	**Term expiry date**
Dott. Marco Pompignoli			
Cairo Editore S.p.A.	Director	from 01.01.10 to 31.12.10	F.S. 31/12/2012
Cairo Pubblicità S.p.A.	Director	from 01.01.10 to 31.12.10	F.S. 31/12/2011
Diellesei S.p.A. in liquidation	Chairman of the Board of Liquidators	from 01.01.10 to 31.12.10	Until revocation
Cairo Publishing S.r.l.	Director	from 01.01.10 to 31.12.10	F.S. 31/12/2010
Il Trovatore S.r.l.	Director	from 01.01.10 to 31.12.10	F.S. 31/12/2011
Cairo Due S.r.l.	Director	from 01.01.10 to 31.12.10	F.S. 31/12/2012
Cairo Sport S.r.l.	Sole director	from 01.01.10 to 31.12.10	F.S. 31/12/2010
Dott. Mauro Sala			
Cairo Editore S.p.A.	Chairman of the Board of Auditors	from 01.01.10 to 31.12.10	F.S. 31/12/2010
Cairo Pubblicità S.p.A.	Chairman of the Board of Auditors	from 01.01.10 to 31.12.10	F.S. 31/12/2012
Diellesei S.p.A. in liquidation	Chairman of the Board of Auditors	from 01.01.10 to 31.12.10	F.S. 31/12/2011
Dott. Marco Moroni		from 01.01.10 to 31.12.10	
Cairo Editore S.p.A.	Statutory auditor	from 01.01.10 to 31.12.10	F.S. 31/12/2010
Dott.ssa Maria Pia Maspes			
Cairo Editore S.p.A.	Statutory auditor	from 01.01.10 to 31.12.10	F.S. 31/12/2010
Diellesei S.p.A. in liquidation	Statutory auditor	from 01.01.10 to 31.12.10	F.S. 31/12/2011
Cairo Pubblicità S.p.A.	Statutory auditor	from 01.01.10 to 31.12.10	F.S. 31/12/2012

.*.*.

31 Transactions deriving from atypical and/or unusual transactions

Pursuant to Consob Communication of 28 July 2006 n. DEM/6064296, mention must be made that in 2010, Cairo Communication made no atypical and/or unusual transaction as defined by the Communication.

As already explained in Note 2, in the schedules of the consolidated income statement, income arising from the Cairo-Telepiù arbitration is shown separately owing to its non-recurring nature and size.

Regarding the income statement of 2009, shown as comparison, there are no cost and revenue components deriving from events or transactions which by their nature or size are considered non-recurring.

Chairman of the Board
(Dott. Urbano R. Cairo)

Cairo Communication S.p.A.
Financial statements as at 31 December 2010 – Annexes and Appendix

ANNEX 1 - LIST OF INVESTMENTS PURSUANT TO PARAGRAPH V OF ART. 2427 OF THE CIVIL CODE

SUBSIDIARIES:

Company name:	**Cairo Editore S.p.A.**
Head office:	Milan – Corso Magenta, 55
Share capital:	1,043,256
Equity as at 31/12/2009:	9,418,324
Net profit (loss) for the year as at 31/12/2009:	6,753,818
Equity draft financial statements as at 31/12/2010:	12,835,407
Net profit (loss) draft financial statements as at 31/12/2010:	10,170,901
Ownership:	99.95%

Company name:	**Cairo Due S.r.l.**
Head office:	Milan – Via Tucidide, 56
Share capital:	46,800
Equity as at 31/12/2009:	93,361
Net profit (loss) as at 31/12/2009:	497
Equity draft financial statements as at 31/12/2010:	92,957
Net profit (loss) draft financial statements as at 31/12/2010:	(403)
Ownership:	100%

Company name:	**Il Trovatore S.r.l.**
Head office:	Milan – Via Tucidide, 56
Share capital	25,000
Equity as at 31/12/2009:	35,242
Net profit (loss) as at 31/12/2009:	6,049
Equity draft financial statements as at 31/12/2010:	27,553
Net profit (loss) draft financial statements as at 31/12/2010:	(7,689)
Ownership:	80%

Company name:	**Cairo Pubblicità S.p.A.**
Head office:	Milan – Via Tucidide, 56
Share capital:	2,818,400
Equity as at 31/12/09:	4,708,429
Net profit (loss) as at 31/12/09:	712,915
Equity draft financial statements as at 31/12/2010:	6,268,451
Net profit (loss) draft financial statements as at 31/12/2010:	2,272,858
Ownership:	100%

Company name:	**Diellesei S.p.A. in liquidation**
Head office:	Milano – Via Tucidide, 56
Share capital:	2.000.000
Equity deficit as at 31/12/2009:	(103,949)
Loss as at 31/12/2009:	(6,499)
Shortfall in own funds draft financial statements as at 31/12/2010:	(171,408)
Loss draft financial statements as at 31/12/2010:	(67,459)
Ownership	60%

Company name:	**Cairo Publishing S.r.l.**
Head office:	Milan – Corso Magenta, 55
Share capital:	10,000
Equity as at 31/12/2009	402,345
Loss as at 31/12/2009:	(4,151)
Equity draft financial statements as at 31/12/2010:	316,568
Loss draft financial statements as at 31/12/2010:	(85,777)
Ownership:	100%

Company name:	**Cairo Sport S.r.l.**
Head office:	Milan – Via Tucidide, 56
Share capital:	10,400
Equity as at 31/12/2009:	9,066
Loss for the year 2009:	(1,335)
Ownership:	100%

INDIRECT SUBSIDIARIES

Company name:	**Edizioni Anabasi S.r.l.**	
Head office:	Milan – Corso Magenta, 55	
Share capital:		10,200
Equity as at 31/12/2009:		8,584
Loss as at 31/12/2009:		(1,745)
Equity draft financial statements as at 31/12/2010:		8,173
Loss draft financial statements as at 31/12/2010:		(2,156)
Ownership:		100%

ANNEX 2

Summary figures of draft financial statements as at 31 December 2010 of subsidiaries in the advertising segment, il Trovatore and discontinued operations.

	Cairo Pubblicità	Cairo Due	Il Trovatore	Cairo Sport	Diellesei in liquidation
	Financial statements as at 31.12.10	Financial statements as at 31.12.10	Financial statements as at 31.12.10	Financial statements as at 31.12.10	Financial statements as at 31.12.10
Assets					
A) Subscribed capital, unpaid	0	0		0	0
B) Intangible assets	2.013.107	225	318	0	0
Property, plant and equipment	21.917	0	12.994	0	0
Investments	1.800	0	3.873	0	
Total non-current assets	**2.036.824**	**225**	**17.185**	**0**	**0**
C) Inventory	0	0	0	0	0
Receivables	89.814.434	222.685	279.749	2.308	171.407
Marketable securities	0	0	0	0	0
Bank balances and cash	9.806.783	349.059	68.289	8.982	37.162
Total current assets	**99.621.217**	**571.744**	**348.038**	**11.290**	**208.569**
D) Prepaid expenses and accrued income	166.772	46	472	0	3.727
Total assets	**101.824.813**	**572.016**	**365.695**	**11.290**	**212.296**
Liabilities					
A) Share capital	2.818.400	46.800	25.000	10.400	2.000.000
Profit and other reserves	1.167.468	10.429	2.372	0	0
Shareholders' contributions to cover losses	331	27.518	0	0	14.771.905
Retained earnings (losses)	9.394	8.613	7.870	0	(16.875.854)
Profit (loss) for the year	2.272.858	(403)	(7.689)	(1.767)	(67.459)
Total equity	**6.268.451**	**92.957**	**27.553**	**8.633**	**(171.408)**
B) Provisions for liabilities and charges	956.013	0		0	102.050
C) Provisions for retirement benefits and staff severance	670.798	0	4.636	0	0
D) Liabilities	93.854.560	479.059	333.507	2.656	281.654
E) Prepaid expenses and accrued income	74.991	0	0	0	0
Total equity and liabilities	**101.824.813**	**572.016**	**365.695**	**11.290**	**212.296**
Income statement					
A) Sales	169.430.819	79	343.813	0	121.090
B) Cost of sales	(165.831.285)	(1.599)	(313.751)	(1.242)	(207.195)
Operating profit	3.599.534	(1.520)	30.062	(1.242)	(86.105)
C) Financial income / (expenses)	53.767	1.117	(1.244)	(525)	732
D) Investment write-downs	0	0	0	0	0
E) Extraordinary income / (expenses)	0	0	0	0	0
Pre-tax profit	**3.653.301**	**(403)**	**28.818**	**(1.767)**	**(85.373)**
Income tax	(1.380.443)	0	(36.507)	0	17.914
Profit / (loss) for the year	**2.272.858**	**(403)**	**(7.689)**	**(1.767)**	**(67.459)**

ANNEX 3

Summary figures of draft financial statements as at 31 December 2010 of subsidiaries in the publishing segment.

	Cairo Editore Financial statements as at 31.12.10	Cairo Publishing Financial statements as at 31.12.10	Edizioni Anabasi Financial statements as at 31.12.10
Assets			
A) Subscribed capital, unpaid	0	0	0
B) Intangible assets	17.460.025	47.500	0
Property, plant and equipment	2.090.345	5.287	0
Investments	162.707	0	0
Total non-current assets	**19.713.077**	**52.787**	**0**
C) Inventory	2.663.977	288.499	0
Receivables	16.231.206	1.788.495	7.713
Marketable securities	0	0	0
Bank balances and cash	15.195.801	128.505	10.446
Total current assets	**34.090.984**	**2.205.499**	**18.159**
D) Prepaid expenses and accrued income	262.020	1.577	0
Total assets	**54.066.082**	**2.259.863**	**18.159**
Equity and liabilities			
A) Share capital	1.043.256	10.000	10.200
Profit and other reserves	1.021.221	5.000	129
Shareholders' contributions	0	0	0
Retained earnings / (losses)	600.029	387.345	0
Profit / (loss) for the year	10.170.901	(85.777)	(2.156)
Total equity	**12.835.407**	**316.568**	**8.173**
B) Provisions for liabilities and charges	372.214	697.439	0
C) Provisions for retirement benefits and staff severance	2.666.540	109.897	0
D) Liabilities	38.129.345	1.135.959	9.986
E) Prepaid expenses and accrued income	62.576	0	0
Total equity and liabilities	**54.066.082**	**2.259.863**	**18.159**
Income statement			
A) Sales	100.925.078	2.299.287	0
B) Cost of sales	(85.360.161)	(2.358.223)	(2.220)
Operating profit	15.564.917	(58.936)	(2.220)
C) Financial income / (expenses)	64.429	(539)	64
D) Investment write-downs	0	0	0
E) Extraordinary income / (expenses)	0	0	0
Pre-tax profit	**15.629.346**	**(59.474)**	**(2.156)**
Income tax	(5.458.445)	(26.303)	0
Profit / (loss) for the year	**10.170.901**	**(85.777)**	**(2.156)**

ANNEX 4

Summary figures of the last financial statements approved by the subsidiaries in the advertising segment, il Trovatore and discontinued operations (31 December 2009).

	Cairo Pubblicità Financial statements as at 31.12.09	**Cairo Due** Financial statements as at 31.12.09	**Il Trovatore** Financial statements as at 31.12.09	**Cairo Sport** Financial statements as at 31.12.09	**Diellesei in liquidation** Financial statements as at 31.12.09
Assets					
A) Subscribed capital, unpaid	0	0	0	0	0
B) Intangible assets	2.500.268	526	477	0	0
Property, plant and equipment	10.586	0	24.870	0	0
Investments	1.800	0	3.873	0	0
Total non-current assets	**2.512.653**	**526**	**29.220**	**0**	**0**
C) Inventory	0	0	0	0	
Receivables	82.164.685	223.723	353.486	2.255	182.734
Marketable securities	0	0	0	0	295.888
Bank balances and cash	9.673.107	348.270	1.108	8.977	
Total current assets	**91.837.792**	**571.993**	**354.593**	**11.232**	**478.622**
D) Prepaid expenses and accrued income	112.739	0	426	0	7.684
Total assets	**94.463.184**	**572.519**	**384.239**	**11.231**	**486.306**
Equity and liabilities					
A) Share capital	2.818.400	46.800	25.000	10.400	2.000.000
Profit and other reserves	1.167.388	10.429	2.372	0	0
Shareholders' contributions to cover losses	332	27.518	0	0	14.771.905
Retained earnings / (losses)	9.394	8.116	1.821	0	(16.869.355)
Profit / (loss) for the year	712.915	497	6.049	(1.335)	(6.499)
Total equity	**4.708.428**	**93.361**	**35.242**	**9.065**	**(103.949)**
B) Provisions for liabilities and charges	885.669	0	0	0	50.866
C) Provisions for retirement benefits and staff seve	591.074	0	3.011	0	0
D) Liabilities	88.178.785	479.158	345.986	2.166	539.389
E) Prepaid expenses and accrued income	99.228	0	0	0	0
Total equity and liabilities	**94.463.184**	**572.519**	**384.239**	**11.231**	**486.306**
Income statement					
A) Sales	150.668.927	0	360.383	0	79.178
B) Cost of sales	(149.392.257)	(1.151)	(342.034)	(1.043)	(84.649)
Operating profit	1.276.670	(1.151)	18.349	(1.043)	(5.471)
C) Financial income / (expenses)	79.427	1.648	(926)	(292)	789
D) Investment write-downs	0	0	0	0	0
E) Extraordinary income / (expenses)	0	0	0	0	0
Pre-tax profit	**1.356.097**	**497**	**17.424**	**(1.335)**	**(4.682)**
Income tax	(643.182)	0	(11.375)	0	(1.817)
Profit / (loss) for the year	**712.915**	**497**	**6.049**	**(1.335)**	**(6.499)**

ANNEX 5

Summary figures of the last financial statements approved by the subsidiaries in the publishing segment (31 December 2009).

	Cairo Editore	**Cairo Publishing**	**Edizioni Anabasi**
	Financial statements as at 31.12.09	Financial statements as at 31.12.09	Financial statements as at 31.12.09
Assets			
A) Subscribed capital, unpaid	0	0	0
B) Intangible assets	19.123.157	82.613	0
Property, plant and equipment	2.121.819	8.859	0
Investments	160.962	0	0
Total non-current assets	**21.405.938**	**91.471**	**0**
C) Inventory	4.033.115	277.656	0
Receivables	16.501.407	1.859.247	7.603
Marketable securities	0	0	0
Bank balances and cash	15.406.439	298.632	11.508
Total current assets	**35.940.962**	**2.435.535**	**19.111**
D) Prepaid expenses and accrued income	145.443	385	
Total assets	**57.492.343**	**2.527.391**	**19.111**
Equity and liabilities			
A) Share capital	1.043.256	10.000	10.200
Profit and other reserves	1.021.221	5.000	129
Shareholders' contributions	0	0	0
Retained earnings / (losses)	600.029	391.496	0
Profit / (loss) for the year	6.753.818	(4.151)	(1.745)
Total equity	**9.418.324**	**402.345**	**8.584**
B) Provisions for liabilities and charges	876.408	627.317	0
C) Provisions for retirement benefits and staff seve	2.753.593	93.202	0
D) Liabilities	44.348.582	1.404.527	10.527
E) Prepaid expenses and accrued income	95.437	0	0
Total equity and liabilities	**57.492.343**	**2.527.391**	**19.111**
Income statement			
A) Sales	102.756.488	2.476.230	0
B) Cost of sales	(91.619.523)	(2.445.790)	(1.851)
Operating profit	11.136.965	30.440	(1.851)
C) Financial income / (expenses)	51.488	(6.136)	105
D) Investment write-downs	0	0	0
E) Extraordinary income / (expenses)	0	0	0
Pre-tax profit	**11.188.453**	**24.304**	**(1.745)**
Income tax	(4.434.635)	(28.455)	0
Profit / (loss) for the year	**6.753.818**	**(4.151)**	**(1.745)**

Appendix

Information pursuant to Article 149-xii of Consob Regulations

The following summary, prepared pursuant to art. 149-xii of Consob regulations, shows the amounts due for the current period for auditing services and for non-audit services provided by the independent audit firm.

€ thousands	**Services rendered by**	**Amounts due for the period**
Audit services		
Audit of the financial statements, the consolidated financial statements, quarterly audits and audit of minor companies	Deloitte & Touche S.p.A.	116
Subsidiaries	Deloitte & Touche S.p.A.	88
Certification services		
Parent company	Deloitte & Touche S.p.A.	3
Subsidiaries	Deloitte & Touche S.p.A.	6
Other services		
Parent company	Deloitte Ers Enterprise Risk	25
Total		**238**

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

Shareholders,

pursuant to art. 2429 of the Civil Code and to art. 153, paragraph 1, of Legislative Decree n. 58 of 24 February 1998, we hereby inform you that during the year ended 31 December 2010, we performed the oversight duties prescribed by law, by article 148 *et seq.* of the abovementioned Legislative Decree, and by the indications held in the relevant CONSOB communications, based also on the standards of conduct recommended by the Italian Association of Public Accountants and Accounting Professionals. The above being stated, the results of the prescribed oversight duties performed during the year ended 31 December 2010 are the following:

- we attended all the Shareholders' Meetings and those of the Board of Directors and Audit Committee, overseeing compliance with the bylaws, laws and regulations governing the functioning of Company bodies. On a quarterly basis at least, pursuant to the disclosure obligations to the Board of Auditors set forth in art. 150, paragraph 1 of Legislative Decree n. 58/1958, we received information from the Directors on activities performed and the transactions of relevance for the income statement, balance sheet and financial situation made by the Company, by subsidiaries and with related parties; we also ensured that actions resolved and taken complied with the laws and bylaws and were made in a perspective of profitability, and that they were neither imprudent nor reckless, or in potential conflict of interest or in contrast with the resolutions adopted by the Shareholders' Meeting, or such as to jeopardize the integrity of corporate assets;
- to the extent of our responsibilities, we gathered information and oversaw the adequacy of the Company's organizational structure and compliance with the principles of proper administration, and the timely execution of instructions given to subsidiaries; all these activities were conducted through direct observation, through information gathered from the organizational managers

and through meetings with the Audit Firm as part of a mutual exchange of important data and information;

- to the extent of our responsibilities, pursuant to art. 19 of Legislative Decree 39/2010, we gathered information and oversaw the adequacy and effectiveness of the audit and risk management system, and the activities conducted by the department persons in charge, as well as the reliability of the administrative-accounting system to properly represent operational events, through information received from the department persons in charge, by examining company documents and the activities conducted by the Audit Firm, by attending the meetings of the Audit Committee and the meetings with the managers charged with supervising the operations of the audit system, as well as with the Financial Reporting Manager;
- we oversaw the procedures for the correct application of the Corporate Governance rules provided by the Corporate Governance Code adopted by Cairo Communication S.p.A.;
- during the year, we issued our opinion as prescribed by law on the determination of compensation to Directors holding strategic responsibilities (art. 2389 of the Civil Code); we verified compliance with the Group's current compensation policy and with the proposals by the Compensation Committee;
- we oversaw the process regarding disclosure of financial information, pursuant to art. 19 of Legislative Decree 39/2010, and the statutory audit of annual and consolidated accounts;
- we expressed our favourable opinion on the compliance of the Procedure for Related Party Transactions adopted by the Company, with the principles set forth in the Consob Regulations containing provisions regarding related party transactions, adopted through resolution n. 17221 of 12 March 2010, subsequently amended by resolution n. 17389 of 23 June 2010. The Board of Auditors will oversee conformity with such procedure and will provide prompt information in its annual report;
- information regarding transactions with related parties or with intra-group companies contained in the explanatory notes to the IAS/IFRS consolidated financial statements of the Cairo Communication Group, and to the IAS/IFRS

separate financial statements of Cairo Communication S.p.A., is considered appropriate, considering the size and structure of the Company;

- there were no atypical and/or unusual transactions with intra-group companies and with related parties. Such transactions are part of the Company's ordinary operations and are settled at market conditions in the interest of the Company;
- during the periodic meetings held with the Audit Firm, pursuant to the provisions of art. 150, paragraph 3, of Legislative Decree 58/1998, no aspects emerged regarding issues within our responsibility;
- there were no omissions, reprehensible facts or irregularities reportable to the competent authorities or to the supervisory bodies, or worthy of mention in this report;
- no complaints were received pursuant to art. 2408 of the Civil Code;
- no opinions were issued pursuant to the law;
- in compliance with the Corporate Governance Code of Listed Companies, which the Company conforms to, pursuant to articles 3.C.5 of this Code, we verified the correct application of evaluation procedures adopted by the Board of Directors to assess the independence of its members.

  The reasons based on which the Board confirmed the persistence of the requirements of independence of two board members, disregarding application criterion 3.C.1, lett. e) of the Corporate Governance Code, which considers no longer independent a director who has been in office for more than nine years in the last twelve years, appear to be appropriately motivated, providing clear and complete information.

  We also verified the persistence of our independence as prescribed by art. 10.C.2. of the Corporate Governance Code;
- the information gathered shows that in 2010, Deloitte ERS Enterprise Risk Service Srl, part of the "network" of the Audit Firm Deloitte & Touche Spa, in addition to the task of auditing the financial statements of the Company and of its subsidiaries, was also entrusted with the task of providing technical-methodological assistance in updating the Organizational Model in accordance with the provisions of Law n. 262 of 28 December 2005. Fees for such task amounted to Euro 25,000.00.

- no critical aspects were reported from the oversight activities of the Board of Auditors on the independence of the Audit Firm, performed pursuant to art. 19 of Legislative Decree 39/2010;
- during the year, the Board of Directors and the Audit Committee both met six times, the Supervisory Board four times and the Board of Auditors five times. The Compensation Committee met twice in 2010.

Regarding oversight of the financial statements and consolidated financial statements, our report shows that:

- we verified that the presentation of the Financial Statements, Consolidated Financial Statements and the Directors' Report on Operations comply with the provisions of law, through direct assessment and through information received from the Audit Firm;
- the Financial Statements and Consolidated Financial Statements were prepared in accordance with the international accounting standards (IFRS) issued by the International Accounting Standard Board (IASB) and approved by the European Union, and with the provisions issued in application of art. 9 of Legislative Decree N. 38/2005;
- information provided by the Directors on the Report on Operations is considered exhaustive and complete;
- the Chairman of the Board of Directors and the Financial Reporting Manager have certified the financial statements, pursuant to art. 81-ter of Consob Regulations n. 11971 of 14 May 1999 and subsequent amendments and additions;
- the Audit Firm Deloitte & Touche Italia, pursuant to art. 2409 ter of the Civil Code, and to art. 156, paragraph 4 bis, lett. D of Legislative Decree n. 58 of 24 February 1998, expressed its positive opinion on the consistency of the Directors' Report on Operations with the Financial Statements and Consolidated Financial Statements.

  The reports on the Financial Statements and Consolidated Financial Statements do not contain any observations and exceptions.

All the above being stated, the Board of Auditors declares, to the extent of its responsibilities, that there are no reasons for impeding the approval of the financial statements as at 31 December 2010, and that there are no observations on the proposal to allocate profit for the year, including the proposal for dividend distribution held in the Directors' Report on Operations to the IAS/IFRS separate financial statements of Cairo Communication S.p.A. prepared by the Board of Directors.

Milan, 5 April 2011

Statutory Auditors

Dott. Mauro Sala

Dott.ssa Maria Pia Maspes

Dott. Marco Moroni

The following page provides a list of the positions of administration and supervision held by the members of the Board of Auditors in other companies as at 5 April 2010 (Annex pursuant to art. 144 quinquiedecies of the Issuers' Regulations).

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

List of positions held in Companies as per Book V, Title V, Chapters V, VI and VII of the Civil Code, as at the issue date of the Report

(art. 144-quinquiesdecies Consob Regulations 11971/99)

N.	Company Name	Position	Until
Dott. Mauro Sala (President of the Board of Auditors)			
1	CAIRO COMMUNICATION SPA	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2010
2	BICA SPA	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2012
3	VALCORTE SPA	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2011
4	FIM-FINANZIARIA-IMMOBILIARE-MOBILIARE SRL	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2012
5	CAIRO EDITORE SPA	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2010
6	IMMOBILIARE BIXIO 4 SPA	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2012
7	UT COMMUNICATIONS SPA	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2010
8	AGAVE SPA	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2010
9	CAIRO PUBBLICITA' SPA	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2012
10	DIELLESEI SPA IN LIQUIDAZIONE	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2011
11	TORINO FOOTBALL CLUB SPA	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2010
12	FINANZIARIA DEL GARDA SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
13	TRIXI SRL	STATUTORY AUDITOR	APP. F.S. 31/12/2012
14	LOKVEN SRL	STATUTORY AUDITOR	APP. F.S. 31/12/2012
15	OLDOLON ITALIANA SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
16	TELLUS SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
17	TROCARDI SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
18	PALIO SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2011
19	LANGHIRANESE PROSCIUTTI SRL	STATUTORY AUDITOR	APP. F.S. 31/12/2012
20	CISGEM SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
21	FLINA SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2011
22	LIRIA SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2010
23	LITUR SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
24	MICROCINEMA SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
25	AREA DUE SRL	SOLE DIRECTOR	TEMPO INDETERMINATO
26	AREA CONSULTING SRL	SOLE DIRECTOR	TEMPO INDETERMINATO
27	ZEDAR SERVIZI AZIENDALI SRL	SOLE DIRECTOR	APP. F.S. 31/12/2013
28	METALSA STAGNO SRL	CHAIRMAN OF THE BOARD	APP. F.S. 31/12/2012
	Number of positions held in issuing companies	1	
	Total number of positions held	28	

N.	Company Name	Position	Until
Dott.ssa Maria Pia Maspes (Statutory auditor)			
1	CAMINETTI MONTEGRAPPA SRL	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2012
2	CAIRO COMMUNICATION SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2010
3	CAIRO PUBBLICITÀ SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
4	DIELLESEI SPA IN LIQUIDAZIONE	STATUTORY AUDITOR	APP. F.S. 31/12/2011
5	G.B.H SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
6	CAIRO EDITORE SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2010
7	UT COMMUNICATIONS SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2010
8	ALTO PARTNES SGR SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
9	ITALHOLDING SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
10	IMMOBILIARE ANDRONICA SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2010
	Number of positions held in issuing companies	**1**	
	Total number of positions held	**10**	

N.	Company Name	Position	Until
Dott. Marco Moroni (Statutory auditor)			
1	TEC ITALIA SRL	PRES. BOARD OF AUDITORS	APP. F.S. 31/03/2013
2	ASTON & COOPER SPA	PRES. BOARD OF AUDITORS	APP. F.S. 31/12/2012
3	CAIRO COMMUNICATION SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2010
4	CAIRO EDITORE SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2010
5	LOCAUTO SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
6	LOCAUTO RENT SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
7	WINE CAPITAL SPA	STATUTORY AUDITOR	APP. F.S. 30/04/2012
8	PUBLICITAS INTERNATIONAL SPA	STATUTORY AUDITOR	APP. F.S. 31/12/2012
9	ELETTRODELTA SPA IN LIQUIDAZIONE	STATUTORY AUDITOR	APP. F.S. 31/12/2011
10	BETFAIR ITALIA SRL	STATUTORY AUDITOR	APP. F.S. 31/12/2012
11	IMMOBILIARE CASA DI VIA ULPIANO SRL	STATUTORY AUDITOR	APP. F.S. 31/12/2012
12	REVICOM SRL	CHAIRMAN OF THE BOARD	UNTIL REVOCATION
	Number of positions held in issuing companies	**1**	
	Total number of positions held	**12**	

Deloitte.

Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milano
Italia

Tel: +39 02 83322111
Fax: +39 02 83322112
www.deloitte.it

AUDITORS' REPORT PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
CAIRO COMMUNICATION S.p.A.

1. We have audited the financial statements of Cairo Communication S.p.A., which comprise the statement of balance sheet as of December 31, 2010, and the income statement, statement of comprehensive income, statement of changes in shareholders' equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's financial statements, whose data are presented for comparative purposes, reference should be made to our auditors' report issued on April 6, 2010.

3. In our opinion, the financial statements give a true and fair view of the financial position of Cairo Communication S.p.A. as of December 31, 2010, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

4. The Directors of Cairo Communication S.p.A. are responsible for the preparation of the report on operations in accordance with the applicable laws. Our responsibility is to express an opinion on the consistency of the annual report and of the specific section on corporate governance and ownership structure with reference to the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the annual report on corporate governance, with the financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the report on operations and the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998 paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) included in the specific section on corporate governance and ownership structure are consistent with the financial statements of Cairo Communication S.p.A. as of December, 31 2010.

DELOITTE & TOUCHE S.p.A.

Signed by
Giacomo Bellia
Partner

Milan, Italy
April 4, 2011

This report has been translated into the English language solely for the convenience of international readers.

Certification of the financial statements in accordance with art. 81-ter of Consob regulation no. 11971 of May 14, 1999 and subsequent amendments and additions

1. We, the undersigned, Urbano Cairo, in my position of Chairman of the Board of Directors, and Marco Pompignoli, in my position of Manager in charge of preparing corporate accounting documents of Cairo Communication S.p.A., taking also account of provisions set forth by Art. 154 bis, subsections 3 and 4 of Italian Legislative Decree no. 58 of February 24, 1998, hereby declare:

- the consistency with regard to the characteristics of the company and
- the actual application

of the administration and accounting procedures for the drafting of the financial statements over 2010.

2. It is also stated that:

2.1 the financial statements as at December 31, 2010:

- were drawn up pursuant to the applicable International Accounting Standards adopted by the European Union pursuant to regulation (EC) no. 1606/2002 of the European Parliament and Council of July 19, 2002;
- correspond to figures disclosed in the accounting books and records;
- supply a true and fair disclosure of the economic, financial and equity situation of the issuer;

2.2 the Annual Report includes a reliable analysis of the performance and management result, as well as the situation of the issuer, together with the description of the major risks and uncertainties to which they are exposed.

March 10, 2011

The Chairman of the Board of Directors

(Urbano Roberto Cairo)

The Manager in charge of preparing corporate accounting documents

(Marco Pompignoli)