CAIRO COMMUNICATION

Interim Half-Year Financial Report at 30 June 2011

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

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Corporate Governance

Board of Directors

Dott. **Urbano Cairo***	Chairman
Dott. **Uberto Fornara**	CEO
Dott. **Roberto Cairo**	Director
Avv. **Marco Janni**	Director
Avv. **Antonio Magnocavallo**	Director
Dott. **Marco Pompignoli**	Director
Dott. **Roberto Rezzonico**	Director
Dott. **Mauro Sala**	Director

Audit Committee

Dott. **Roberto Rezzonico**	Director
Avv. **Antonio Magnocavallo**	Director
Dott. **Mauro Sala**	Director

Compensation Committee

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

Related Party Committee

Dott. **Mauro Sala**	Director
Dott. **Roberto Rezzonico**	Director
Avv. **Marco Janni**	Director

Board of Auditors

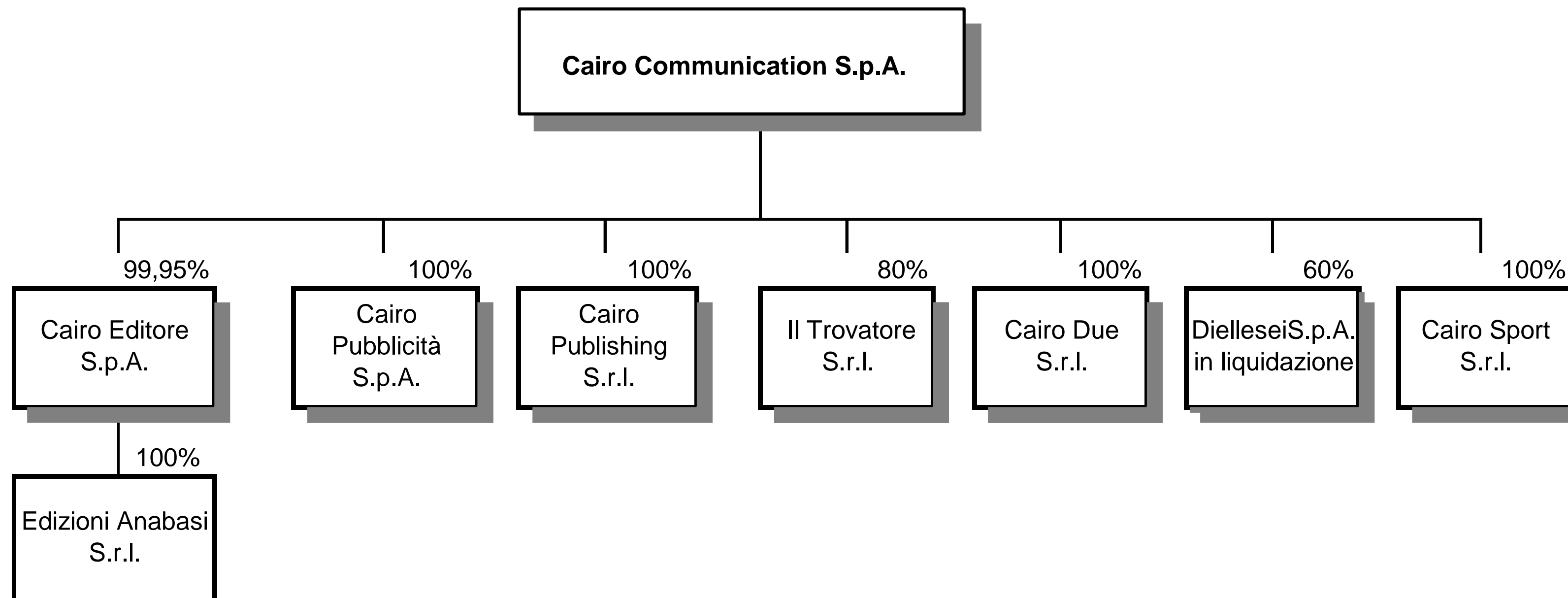
Dott. **Marco Moroni**	Chairman
Dott. **Marco Giuliani**	Statutory auditor
Dott.ssa **Maria Pia Maspes**	Statutory auditor
Dott. **Mario Danti**	Alternate auditor
Dott. **Enrico Tamborini**	Alternate auditor

Audit Firm

KPMG S.p.A.

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

The Group at 30 June 2011



Interim management report at 30 June 2011

This half-year financial report as at 30 June 2011 has been prepared in accordance with Art. 154, section 3, of Legislative Decree No. 58/1998, and in keeping with the International Accounting Standards recognized by the European Union with EC Regulation No. 1606/2002 of the European Parliament and Council of 19 July 2002.

In 1H11, 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).

In 1H11, uncertainty continued to loom over the short and medium-term economic landscape, despite the signs of recovery seen in 2010, especially in the TV advertising market.

Based on the latest AC Nielsen figures available at the date of approval of this report (May 2011), in the January-May five-month period of 2011, advertising investments in Italy amounted to approximately Euro 3.8 billion, down 2.8% versus last year. Nielsen's analysis by media shows that in this period:

- the magazine advertising market dropped by 1.4% versus 2010, when the market had lost in the same period 9.3% versus 2009,
- the TV advertising market fell by 2.3% versus 2010, when it had risen in the same period by 6% versus 2009.

Against this backdrop, in 1H11 current operating results of the Cairo Communication Group improved versus the same period last year, with gross operating profit (EBITDA) of approximately Euro 17.6 million (+29.6%) and operating profit (EBIT) of approximately Euro 15.8 million (+38.1%), thanks primarily to the surge in TV advertising sales, mainly on La7. Group net profit in 1H11 came to approximately Euro 10.5 million.

Mention must be made that in 1H10, the results had also included non-recurring income from the Cairo-Telepiù arbitration, as illustrated in the 2010 annual financial report, in the paragraph on "*Management performance of the Cairo Communication Group - consolidated figures*" of the Directors' Report on Operations and in the notes to the schedules of the consolidated and parent company financial statements as at 31 December 2010 in the notes to *"Other revenues - non-recurring income from Cairo-Telepiù arbitration"*.

Looking at each single business segment, in 1H11:

- in **publishing**, gross operating profit (EBITDA) and operating profit (EBIT) were up 3.4% and 3.9% respectively, reaching Euro 8.4 million and Euro 7.7 million versus 1H10, despite the lower amount of issues of "Settimanale Dipiù" versus 2010 (25 instead of 26), shedding

approximately Euro 0.3 million in profits, the cut price (from 1 Euro to 50 cents) of five issues of "Dipiù TV", losing approximately Euro 0.8 million, and the cut price (from 70 cents to 50 cents) of three issues of "TV Mia";

- in **advertising**, gross operating profit (EBITDA) and operating profit (EBIT) from current operations were up by respectively 68.4% and 100.1%, reaching Euro 9.2 million and Euro 8.1 million versus 1H10, thanks mainly to the increase in TV advertising revenues (+35.8% overall). Advertising sales on La 7, approximately Euro 84.2 million, were up 32% versus 2010.

Starting from September 2010, LA7 audience figures shot up and increased further in the January-June six-month period of 2011 (3.63% average all-day share versus 2.81% in 1H10), suggesting that the pace can be maintained in the upcoming months, impacting positively on advertising revenues. In particular, the 8 PM newscast's share in 1H11 exceeded the 10% share for 48 times (9.06% average share in 1H11 versus 2.64% in 1H10), gaining widespread attention across the media, with benefits trickling down to the top news and in-depth programmes produced by the channel, such as "L'infedele" (6.25% average share versus 3.59% in 1H10), "Otto e mezzo" (6.33% average share versus 3.07% in 1H10), "Omnibus" and "Le invasioni barbariche".

Management performance

Cairo Communication Group – Consolidated figures

The main **consolidated income statement figures** in 1H11 can be compared as follows with those of 1H10:

	30/06/2011 (Half-year)			30/06/2010 (Half-year)		
	Current operations	Non-recurring items	Total	Current operations	Non-recurring items	Total
Gross operating revenues	155,649	-	155,649	130,107	-	130,107
Advertising agency discounts	(17,520)	-	(17,520)	(13,463)	-	(13,463)
Net operating revenues	**138,129**	**-**	**138,129**	**116,644**	**-**	**116,644**
Inventory movements	(111)	-	(111)	(94)	-	(94)
Other operating revenues	1,239	-	1,239	1,296	-	1,296
Non-recurring arbitration income	-	-	-	**-**	6,792	6,792
Operating revenues	**139,257**	**-**	**139,257**	**117,846**	**6,792**	**124,638**
Cost of sales	(110,032)	-	(110,032)	(93,252)	-	(93,252)
Personnel costs	(11,582)	-	(11,582)	(10,981)	-	(10,981)
Gross operating profit (EBITDA)	**17,643**	**-**	**17,643**	**13,613**	**6,792**	**20,405**
Amortization, depreciation, provisions and write-downs	(1,823)	-	(1,823)	(2,157)	-	(2,157)
Operating profit (EBIT)	**15.820**	**-**	**15.820**	**11,456**	**6,792**	**18,248**
Net financial income	581	-	581	110	-	110
Investment income	-	-	-	-	-	-
Pre-tax profit	**16,401**	**-**	**16,401**	**11,566**	**6,792**	**18,358**
Income tax	(5,862)	-	(5,862)	(3,947)	(3,122)	(7,069)
Minorities	(4)	-	(4)	(2)	-	(2)
Group share in net profit from continuing operations	**10,535**	**-**	**10,535**	**7,617**	**3,670**	**11,287**
Net profit / (loss) from discontinued operations	(4)	-	(4)	(62)	-	(62)
Minorities' loss from discontinued operations	-	-	-	-	-	-
Group net profit/(loss) from discontinued operations	**(4)**	**-**	**(4)**	**(62)**	**-**	**(62)**
Group net profit	**10,531**	**-**	**10,531**	**7,555**	**3,670**	**11,225**

In 1H11, looking at current operations

- gross consolidated revenues amounted to approximately Euro 156.9 million (Euro 131.4 million in 1H10), comprising operating revenues of Euro 155.6 million and other revenues of Euro 1.2 million, up 19.4% overall versus 1H10,
- consolidated gross operating profit (EBITDA), amounting to approximately Euro 17.6 million, was up 29.6% versus 1H10 (Euro 13.6 million),
- consolidated operating profit (EBIT) amounted to approximately Euro 15.8 million, rising by 38.1% versus 1H10 (Euro 11.5 million),
- group net profit was approximately Euro 10.5 million, up 39.4% versus 1H10 (Euro 7.6 million).

In the schedules of the consolidated income statement of 1H10 appearing in this interim management report, as for the statements and Directors' Reports on Operations prepared in 2010, income arising from the Telepiù arbitration is shown separately owing to its non-recurring nature.

Including non-recurring income from the Cairo-Telepiù arbitration, in 1H10 consolidated gross operating profit (EBITDA) and operating profit (EBIT) had amounted to approximately Euro 20.4 million and approximately Euro 18.2 million, respectively. Group share in net profit had come to approximately Euro 11.2 million.

As for the preparation of the consolidated financial statements as at 31 December 2010, the Group's share in the net loss of Diellesei S.r.l. in liquidation is shown separately under "net profit/(loss) from discontinued operations".

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

(€thousands)	**30/06/2011**	**30/06/2010**
Consolidated statement of comprehensive income		
Group share in net profit	**10,531**	**11,225**
Loss from valuation of investments available for sale	(8)	(849)
Total statement of Group comprehensive income	**10,523**	**10,376**

"Loss from valuation of investments available for sale" refers to the book value adjustment of the investment in the listed company Dmail Group (765,000 shares, or 10% of the share capital), with a contra-entry in reduction of net equity for Euro 8 thousand, as at 8 April 2011, the date taken as basis for the reclassification of the investment from "other investments" ("available for sale") to "associate companies" as in the following comments to consolidated balance sheet figures .

For a better understanding, Group performance in 1H11 has been split up by **core business segment** (publishing, advertising and Il Trovatore), comparing the figures with those of 1H10:

30/06/2011 (Half-year) (€thousands)	Publishing	Advertising Current operations	Advertising Non-recurring items	Trovatore	Unallocated Operations	Intra group	Total
Gross operating revenues	47,824	122,536	-	185	-	(14,896)	155,649
Advertising agency discounts	-	(17,520)	-	-	-	-	(17,520)
Net operating revenues	**47,824**	**105,016**	**-**	**185**	**-**	**(14,896)**	**138,129**
Inventory movements	(111)	-	-	-	-	-	(111)
Other operating revenues	1,005	234	-	-	-	-	1,239
Non-recurring arbitration income	-		-	-	-	-	-
Operating revenues	**48,718**	**105,250**	**-**	**185**	**-**	**(14,896)**	**139,257**
Cost of sales	(31,965)	(92,825)	-	(138)	-	14,896	(110,032)
Personnel costs	(8,381)	(3,185)	-	(16)	-	-	(11,582)
Gross operating profit (EBITDA)	**8,372**	**9,240**	**-**	**31**	**-**	**-**	**17,643**
Amortization, depreciation, provisions and write-downs	(718)	(1,101)	-	(4)	-	-	(1,823)
Operating profit (EBIT)	**7,654**	**8,139**	**-**	**27**	**-**	**-**	**15,820**
Net financial income	124	458	-	(1)	-	-	581
Investment income	-	-	-	-	-	-	-
Pre-tax profit	**7,778**	**8,597**	**-**	**26**	**-**	**-**	**16,401**
Income tax	(2,811)	(3,034)	-	(17)	-	-	(5,862)
Minorities	-	-	-	(4)	-	-	(4)
Group share in net profit from continuing operations	**4,967**	**5,563**	**-**	**5**	**-**	**-**	**10,535**
Net profit/(loss) from discontinued operations	-	-	-	-	(4)	-	(4)
Net profit	**4,967**	**5,563**	**-**	**5**	**(4)**	**-**	**10,531**

30/06/2010 (Half-year) (€thousands)	Publishing	Advertising Current operations	Advertising Non-recurring items	Trovatore	Unallocated operations	Intra group	Total
Gross operating revenues	48,717	94,841	-	173	-	(13,624)	130,107
Advertising agency discounts	-	(13,463)	-		-		(13,463)
Net operating revenues	**48,717**	**81,378**	**-**	**173**	**-**	**(13,624)**	**116,644**
Inventory movements	(94)	-	-	-	-	-	(94)
Other operating revenues	949	347	-	-	-	-	1,296
Non-recurring arbitration income	-	-	6,792	-	-	-	6,792
Operating revenues	**49,572**	**81,725**	**6,792**	**173**	-	**(13,624)**	**124,638**
Cost of sales	(33,299)	(73,451)	-	(126)	-	13,624	(93,252)
Personnel costs	(8,176)	(2,787)	-	(18)	-	-	(10,981)
Gross operating profit (EBITDA)	**8,097**	**5,487**	**6,792**	**29**	-	**-**	**20,405**
Amortization, depreciation, provisions and write-downs	(729)	(1,420)	-	(8)	-	-	(2,157)
Operating profit (EBIT)	**7,368**	**4,067**	**6,792**	**21**	**-**	**-**	**18,248**
Net financial income	6	105	-	(1)	-	-	110
Investment income	-	-	-	-	-	-	-
Pre-tax profit	**7,374**	**4,172**	**6,792**	**20**	**-**	**-**	**18,358**
Income tax	(2,302)	(1,636)	(3,122)	(9)	-	-	(7,069)
Minorities	-	-	-	(2)	-	-	(2)
Group share in net profit from continuing operations	**5,072**	**2,536**	**3,670**	**9**	**-**	**-**	**11,287**
Net profit/(loss) from discontinued operations	-	-	-	-	(62)	-	(62)
Net profit	**5,072**	**2,536**	**3,670**	**9**	**(62)**	-	**11,225**

Gross operating revenues in 1H11, split up by main business segment (publishing, advertising and Il Trovatore), can be analyzed as follows versus 1H10:

Gross revenues (€thousands)	**Half-year as at 30/06/2011** (six months)				
	Publishing	**Advertising**	**Trovatore**	**Intra group eliminations**	**Total**
Magazine over-the-counter sales	31,744	-	-	-	31,744
Print media advertising	14,604	19,886	-	(14,487)	20,003
TV advertising	-	100,482	-	-	100,482
Stadium signage	-	1,338	-	-	1,338
Internet advertising	-	529	27	-	556
Subscriptions	1,544	-	-	-	1,544
Books and catalogues	461	-	-	-	461
Other revenues	-	301	158	(409)	50
VAT relating to publications	(529)	-	-	-	(529)
Total gross operating revenues	**47,824**	**122,536**	**185**	**(14,896)**	**155,649**
Other revenues	1,005	234	-	-	1,239
Revenues from current operations	**48,829**	**122,770**	**185**	**(14,896)**	**156,888**
Non-recurring arbitration income	-	-	-	-	-
Total revenues	**48,829**	**122,770**	**185**	**(14,896)**	**156,888**

Gross revenues (€thousands)	**Half-year as at 30/06/2010** (six months)				
	Publishing	**Advertising**	**Trovatore**	**Intra group eliminations**	**Total**
Magazine over-the-counter sales	33,994	-	-	-	33,994
Print media advertising	13,285	19,431	-	(13,221)	19,495
TV advertising	-	73,993	-	-	73,993
Stadium signage	-	768	-	-	768
Internet advertising	-	362	20	-	382
Subscriptions	1,461	-	-	-	1,461
Books and catalogues	534	-	-	-	534
Other revenues	-	287	153	(403)	37
VAT relating to publications	(557)	-	-	-	(557)
Total gross operating revenues	**48,717**	**94,841**	**173**	**(13,624)**	**130,107**
Other revenues	949	347	-	-	1,296
Revenues from current operations	**49,666**	**95,188**	**173**	**(13,624)**	**131,403**
Non-recurring arbitration income	-	6,792	-	-	6,792
Operating revenues	**49,666**	**101,980**	**173**	**(13,624)**	**138,195**

The main **consolidated balance sheet figures** as at 30 June 2011 can be compared versus the situation as at 31 December 2010:

(€thousands)	**30/06/2011**	**31/12/2010**
Assets		
Property, plant and equipment	2,499	2,656
Intangible assets	9,366	9,552
Investments	2,304	2,319
Prepaid tax	4,433	4,480
Net current assets	1,633	(1,147)
Total assets	**20,245**	**17,860**
Non-current borrowings and provisions	5,596	6,015
(Net financial assets)/Net debt	(48,221)	(58,339)
Net equity	62,506	70,184
Minorities	4	0
Total equity and liabilities	**20,245**	**17,860**

The Shareholders' Meeting of 28 April 2011 approved the distribution of a dividend of 0.25 Euro per share, inclusive of tax, with detachment date on 9 May 2011 (coupon n. 3 post-split), for a total of Euro 19.4 million.

"Investments" refer mainly (Euro 2.2 million) to the 765,000 shares, or 10% of the share capital, in the listed company Dmail Group S.p.A.

In the half-year financial report as at 30 June 2011, the investment held in Dmail Group S.p.A. was reclassified from "other investments" ("available for sale") to "associate companies", with the net equity method valuation at the end of each reporting period. The reclassification is due to the fact that:

- on 8 April, Cairo Communication and another shareholder submitted the list of candidates for the renewal of the company bodies, Board of Directors and Board of Auditors, exercising for the first time since holding the investment (2005) the rights deriving from the list vote;
- submission of the lists, hence exercise of such rights, is intended to have greater influence on the management of the associate company, whose new Board of Directors is currently working on a multi-year business plan to re-launch business and pursue greater levels of business efficiency.

For the purposes of the reclassification, the date of reference of 8 April (date of the submission of the lists) and a book value of Euro 2.91 per share (average price 1 January 2011 - 8 April 2011) have been taken as basis.

On 9 May 2011, the Shareholders' Meeting of DMail Group appointed dott. Fabio Tacciaria as member of the Board of Directors and dott. Luca Berta as Chairman of the Board of Auditors,

both drawn from the minority lists jointly submitted by Cairo Communication S.p.A. and Niteroi S.r.l.

In 2011, as part of the share buy-back plans, 400,000 treasury shares were sold (0.511% of the share capital) following entry in the shareholding structure of an institutional investor of prominent standing, at a unit price of Euro 3.00 per share, equivalent to a total value of Euro 1.2 million. As a result of the sale, as at 30 June 2011 Cairo Communication held a total of n. 371.326 treasury shares, or 0.474% of the share capital, subject to art. 2357-ter of the Civil Code.

An analysis of the financial position 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, generates positive results and can finance its current operations.

The consolidated **net financial position** as at 30 June 2011, versus the situation as at 31 December 2010, can be summarized as follows:

(€thousands)	**30/06/2011**	**31/12/2010**	**Change**
Cash and cash equivalents	48,142	58,260	(10,118)
Short-term investments	79	79	-
Total	**48,221**	**58,339**	**(10,118)**

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

The main **Parent Company income statement figures** in 1H11 can be compared with those in 1H10:

	30/06/2011 (Half-year)			30/06/2010 (Half-year)		
	Current operations	Non-recurring items	Total	Current operations	Non-recurring items	Total
Gross operating revenues	70,922	-	70,922	67,599	-	67,599
Advertising agency discounts	-	-	-	-	-	-
Other operating revenues	120	-	120	225	-	225
Non-recurring arbitration income					9,944	9,944
Operating revenues	**71,042**	**-**	**71,042**	**67,824**	**9,944**	**77,768**
Cost of sales	(64,915)	-	(64,915)	(63,407)	-	(63,407)
Personnel costs	(1,389)	-	(1,389)	(1,194)	-	(1,194)
Gross operating profit (EBITDA)	**4,738**	**-**	**4,738**	**3,223**	**9,944**	**13,167**
Amortization, depreciation, provisions and write-downs	(207)	-	(207)	(113)	-	(113)
Operating profit (EBIT)	**4,531**	**-**	**4,531**	**3,110**	**9,944**	**13,054**
Net financial income	358	-	358	88	-	88
Investment income	12,439	-	12,439	7,463	-	7,463
Pre-tax profit	**17,328**	**-**	**17,328**	**10,661**	**9,944**	**20,605**
Income tax	(1,754)	-	(1,754)	(1,202)	(3,122)	(4,324)
Net profit from continuing operations	**15,574**	**-**	**15,574**	**9,459**	**6,822**	**16,281**
Group share in net profit/(loss) from discontinued operations	**(4)**	**-**	**(4)**	**(62)**	**-**	**(62)**
Group net profit	**15,570**	**-**	**15,570**	**9,397**	**6,822**	**16,219**

In 1H11 Cairo Communication continued to operate in TV advertising sales (La7, La7d and theme channels Cartoon Network, Boomerang and CNN) and on the Internet through its subsidiary Cairo Pubblicità on a sub-concession basis, which invoices customers directly for the advertising spaces and returns a percentage of these revenues to Cairo Communication.

Starting from January 2011, Cairo Pubblicità has, instead, entered directly with Cairo Editore into an exclusive advertising concession contract on its publications. Until December 2010, print media advertising sales were also based on a sub-concession agreement.

The drop in revenues recorded by Cairo Communication on print media is attributable to this new contractual framework, more than offset in 1H11, however, by the surge in TV advertising revenues.

In 1H11**,** looking at current operations

- gross revenues were approximately Euro 71 million (Euro 67.8 million in 1H10), comprising operating revenues of Euro 70.9 million and other revenues of Euro 0.1 million, up 4.7% overall versus 1H10;
- gross operating profit_(EBITDA) of the Parent Company, amounting to approximately Euro 4.7 million, was up 47% versus 1H10 (Euro 3.2 million),
- operating profit (EBIT), amounting to approximately Euro 4.5 million, rose by 45.7% versus 1H10 (Euro 3.1 million).
- net profit came to approximately Euro 15.6 million (Euro 9.4 million in 2010) mainly thanks to the growth of "Investment income".

"Investment income" mainly included dividends received from subsidiaries Cairo Pubblicità, amounting to Euro 2.3 million (Euro 0.7 million in 2010) and Cairo Editore, amounting to Euro 10.2 million (Euro 6.8 million in 2010).

As for consolidated data, in the schedules of the Parent Company income statement of 1H10 appearing in this interim management report, as for the statements and Directors' Reports on Operations prepared in 2010, income arising from the Cairo-Telepiù arbitration is shown separately owing to its non-recurring nature.

Including non-recurring income, in 1H10 gross operating profit (EBITDA) had come to approximately Euro 13.2 million, operating profit (EBIT) to approximately Euro 13.1 million and net profit to Euro 16.2 million.

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

(€thousands)	30/06/2011	30/06/2010
Statement of comprehensive income of Parent Company		
Net profit	15,570	16,219
Loss from valuation of investments available for sale	(8)	(849)
Total statement of comprehensive income	**15.562**	**15,370**

As commented for consolidated data, "loss from valuation of investments available for sale" refers to the book value adjustment of the investment in the listed company Dmail Group (765,000 shares, or 10% of the share capital) as at 8 April 2011, the date taken as basis for the reclassification of the investment from "other investments" ("available for sale") to "associate companies".

The main **balance sheet figures** as at 30 June 2011 of Cairo Communication S.p.A. can be compared with the situation as at 31 December 2010:

(€thousands)	30/06/2011	31/12/2010
Assets		
Property, plant and equipment	303	352
Intangible assets	134	151
Investments	15,933	15,941
Other non-current assets	399	399
Net current assets	22,994	22,234
Total assets	**39,760**	**39,077**
Non-current borrowings and provisions for liabilities	1,001	837
(Net financial position)/Net borrowings	(29,591)	(32,742)
Net equity	68,350	70,982
Total equity and liabilities	**39,760**	**39,077**

As already mentioned in the notes to the consolidated balance sheet, the Shareholders' Meeting of 28 April 2011 approved the distribution of a dividend of 0.25 Euro per share, inclusive of tax, with detachment date on 9 May 2011 (coupon n. 3 post-split), for a total of Euro 19.4 million.

The **net financial position** of the Parent Company as at 30 June 2011, compared with the situation as at 31 December 2010, is summarized as follows:

(€thousands)	30/06/2011	30/06/2010	Change
Cash and cash equivalents	29,512	32,663	(3,151)
Marketable securities	79	79	-
Total	**29,591**	**32,742**	**(3,151)**

Reconciliation statement between net equity and result of the period of the Parent Company and those of the Group

The **reconciliation statement** between the net equity and result of the period of Cairo Communication S.p.A. and those of the Group as at 30 June 2011 can be analyzed as follows:

(€ thousands)	Net equity	Result
Half year financial statements of Cairo Communication S.p.A.	**68,350**	**15,570**
Elimination of the value of consolidated shareholdings	-	-
Differences between book value and Group share in net equity of shareholdings	6,659	-
Group share of consolidated subsidiaries' net profit, net of investment writedowns		7,310
Allocation of value differences paid:		
Goodwill	7,220	-
Other asset revaluations		
Elimination of intra-group profit net of relevant tax effect	(19,723)	90
Elimination of intra-group dividends		(12,439)
Half year consolidated financial statements of Cairo Communication	**62,506**	**10,531**

Analysis of operating results of the main business segments

PUBLISHING

CAIRO EDITORE - CAIRO PUBLISHING

In 1H11, the results of the publishing segment were as follows:

Publishing *(€ thousands)*	30 June 2011	30 June 2010
Gross operating revenues	47,824	48,717
Advertising agency discounts	-	-
Net operating revenues	**47,824**	**48,717**
Other operating revenues	1,005	949
Inventory movements	(111)	(94)
Operating revenues	**48,718**	**49,572**
Cost of sales	(31,965)	(33,299)
Personnel costs	(8,381)	(8,176)
Gross operating profit (EBITDA)	**8,372**	**8,097**
Amortization, depreciation, provisions and write-downs	(718)	(729)
Operating profit (EBIT)	**7,654**	**7,368**
Net financial income	124	6
Pre-tax profit	**7,778**	**7,374**
Income tax	(2,811)	(2,302)
Minorities	-	-
Group share in net profit from continuing operations	**4,967**	**5,072**
Net profit/(loss) from discontinued operations	-	-
Net profit	**4,967**	**5,072**

Sales revenues from Group publications, amounting to Euro 31.7 million, were down 6.6% versus 1H10, due also to the lower amount of issues of “Settimanale Dipiù” versus 2010 (25 instead of 26), shedding approximately Euro 0.6 million in revenues, the cut price (from 1 Euro to 50 cents) of five issues of “Dipiù TV”, losing approximately Euro 0.9 million, and the cut price (from 70 cents to 50 cents) of three issues of “TV Mia”, dropping by approximately Euro 0.1 million.

Group gross advertising revenues, which reached Euro 19.5 million, were up 2.6% (*ACNielsen*, versus the -1.4% of the magazine advertising market in the January-May five-month period of 2011 versus the same period of 2010) versus 1H10 (Euro 19 million), despite one issue less of “Settimanale Dipiù”, confirming the turnaround and positive trend that had already started in 2Q10.

Despite the lower number of issues of “Settimanale Dipiù” (with a loss of about Euro 0.3 million) and the higher promotional costs for the cut prices made (with a negative effect on margins of about Euro 0.8 million), in 1H11 gross operating profit (EBITDA) and operating profit (EBIT) in the publishing segment were up 3.4% and 3.9%, respectively, reaching Euro 8.4 million and Euro 7.7 million versus 1H10 (Euro 8.1 million and Euro 7.4 million respectively in 1H10), thanks primarily to the high quality of the Group’s publications and to the increased levels of efficiency reached in previous periods to curb production, publishing and distribution costs.

“Settimanale DIPIU”, Italy's second best-selling magazine with an average ADS circulation of 706,375 copies, “DIPIU’ TV”, with an average ADS circulation of 468,545 copies, and “Diva e

Donna", with an average ADS circulation of 200,780 copies in the 12-month period from April 2010 to March 2011, 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 over-the-counter (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 86% of the total publishing revenues, are sold as single copies and not bundled with other weeklies and/or dailies to bolster sales.

ADVERTISING

In 1H11, the results of the advertising segment were as follows:

	30/06/2011 (Half-year)			30/06/2010 (Half-year)		
	Current operations	Non-recurring items	Total	Current operations	Non-recurring items	Total
Gross operating revenues	122,536	-	122,536	94,841	-	94,841
Advertising agency discounts	(17,520)	-	(17,520)	(13,463)	-	(13,463)
Net operating revenues	**105,016**	**-**	**105,016**	**81,378**	**-**	**81,378**
Inventory movements	-	-	-	-	-	-
Other operating revenues	234	-	234	347	-	347
Non-recurring arbitration income	-	-	-	-	6,792	6,792
Operating revenues	**105,250**	**-**	**105,250**	**81,725**	**6,792**	**88,517**
Cost of sales	(92,825)	-	(92,825)	(73,451)	-	(73,451)
Personnel costs	(3,185)	-	(3,185)	(2,787)	-	(2,787)
Gross operating profit (EBITDA)	**9,240**	**-**	**9,240**	**5,487**	**6,792**	**12,279**
Amortization, depreciation, provisions and write-downs	(1,101)	-	(1,101)	(1,420)	-	(1,420)
Operating profit (EBIT)	**8,139**	**-**	**8,139**	**4,067**	**6,792**	**10,859**
Net financial income	458	-	458	105	-	105
Investment income	-	-	-	-	-	-
Pre-tax profit	**8,597**	**-**	**8,597**	**4,172**	**6,792**	**10,964**
Income tax	(3,034)	-	(3,034)	(1,636)	(3,122)	(4,758)
Minorities	-	-	-	-	-	-
Group share in net profit from continuing operations	**5,563**	**-**	**5,563**	**2,536**	**3,670**	**6,206**
Net profit / (loss) from discontinued operations	-	-	-	-	-	-
Minorities' loss from discontinued operations	-	-	-	-	-	-
Group net profit/(loss) from discontinued operations	**-**	**-**	**-**	-	-	-
Group share of net profit	**5,563**	**-**	**5,563**	**2,536**	**3,670**	**6,206**

In 2011, in the advertising segment, the Cairo Communication Group acted as advertising broker - with subsidiary Cairo Pubblicità - selling space in the print media for Cairo Editore ("For Men Magazine", "Natural Style", "Settimanale DIPIU'", "DIPIU' TV" and weekly supplements "Settimanale DIPIU' e DIPIU'TV Cucina" and "Settimanale DIPIU' e DIPIU'TV Stellare", "Diva e Donna" 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"), for the sale of advertising space on TV for third parties TIMedia (La7 and La7d), Interactive Group (Sportitalia, Sportitalia 2 and Sportitalia 24) and Turner Broadcasting (Cartoon Network, Boomerang, and CNN), on the Internet mainly for TIMedia (La7.it and La7.tv), Sportitalia (Sportitalia.it) and Turner Broadcasting (Cartoon Network.it, Cnn.com, Cnnmoney.com) and for the sale of stadium signage and space at the Olimpico in Turin for Torino FC.

In the advertising segment, gross operating profit (EBITDA) and operating profit (EBIT) from current operations increased by 68.4% and 100.1% respectively, reaching Euro 9.2 million and Euro 8.1 million versus 1H10 (Euro 5.5 million and Euro 4.1 million respectively in 2010), thanks mainly to the increase in TV advertising revenues (+35.8% overall).

Television

In 1H11, TV advertising revenues (including La 7, La 7d, Sportitalia, theme channels Cartoon Network, Boomerang and CNN), totaling Euro 100.5 million, were up 35.8% overall versus 2010 (*ACNielsen*, versus the -2.3% of the TV advertising market in the January-May five-month period of 2011 versus the same period of 2010).

Specifically, advertising revenues on LA7, amounting to approximately Euro 84.2 million, rose by 32% versus 2010 and outstripped the minimum contractual half-year target (Euro 63.6 million). In 1H11, La7 confirmed the surge in shares that had started in September 2010 (3.63% average all-day share versus 2.81% in 1H10).

Advertising sales on the free digital channel La 7d came to approximately Euro 4.7 million and exceeded the minimum contractual half-year target (Euro 4.2 million).

In 1H11, the digital and satellite channels Sportitalia, Sportitalia 2 and Sportitalia 24 generated gross revenues of approximately Euro 7.5 million, rising strongly versus 1H10, when sales activities, which had started in January, had begun to come into full swing only from March.

Print media

As mentioned earlier, Group magazine gross advertising revenues, amounting to Euro 19.5 million, progressed by 2.6% (*ACNielsen* versus the -1.4% of the magazine advertising market in the January-May five-month period of 2011 versus the same period of 2010) versus 1H10 (Euro 19 million), despite the lower amount of issues of "Settimanale Dipiù", confirming the turnaround and positive trend that had already started in 2Q10.

IL TROVATORE

In 1H11, Il Trovatore continued operations, providing technological services mainly to Group companies, as well as managing its search engine.

Alternative performance indicators

In order to have a better reading of the economic and financial performance of the Cairo Communication Group, in addition to the conventional IFRS financial indicators, **alternative performance indicators** appear in this report, but must not be considered to replace the IFRS indicators.

The alternative performance indicators are:

· **Gross operating profit (EBITDA):** adopted by Cairo Communication as a target to monitor internal management and for public presentations (for analysts and investors), representing a unit of measurement to assess operating performance of the Group and Parent Company, alongside **operating profit (EBIT).** These indicators are calculated as follows:

Pre-tax profit/(loss) of continuing operations

- Net financial income

- Investment income (write-downs)

EBIT- Operating profit (loss)

+ Amortization and depreciation

+ Provisions for bad and doubtful debts

+ Provisions for liabilities and charges

EBITDA – Gross operating profit before amortization, depreciation, provisions and write-downs.

The Cairo Communication Group considers the **net financial position** a valid indicator of its capability to meet current and future financial obligations. As seen in the table included in this report, which shows the value of assets used for the calculation of net financial assets, this consolidated item includes cash and cash equivalents, fixed deposits and other current financial assets, offset by current and non-current bank borrowings.

Transactions between the controlling shareholder, group companies and other related parties

Transactions carried out during the period with related parties, including 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 related parties is disclosed in Note 24 to the condensed consolidated half-year financial statements.

Significant events in 1H11

No significant events were reported in 1H11 from current operations.

The Shareholders’ Meeting of 28 April 2011:

- appointed, for a three-year period, with term expiring upon approval of the financial statements as at 31 December 2013, based on the single list submitted by the majority shareholder UT Communications S.p.A., the Board of Directors of the Company, composed of:
  - three executive directors: Chairman Dott. Urbano Cairo, Dott. Uberto Fornara and Dott. Marco Pompignoli,
  - two non-executive directors: Avv. Antonio Magnocavallo and Dott. Roberto Cairo and
  - three independent directors: Avv. Marco Janni, Dott. Mauro Sala and Dott. Roberto Rezzonico;
- appointed, for a three-year period, until approval of the financial statements as at 31 December 2013, based on the single list submitted by the majority shareholder UT Communications S.p.A., the Board of Auditors, composed of the three statutory auditors Dott. Marco Moroni (Chairman), Dott.ssa Maria Pia Maspes and Dott. Marco Giuliani, and two alternate auditors, Dott. Mario Danti and Dott. Enrico Tamborini;
- upon motivated proposal of the Board of Auditors, appointed KPMG S.p.A. as the Audit Firm, also approving its fee.

On 3 May 2011, the Board of Directors also:

- assessed, with the Board of Auditors, compliance with the independence requirements prescribed by art. 148, paragraph 3 of Legislative Decree n. 58 of 24 February 1998, and with subsequent requirements of the Corporate Governance Code issued by Borsa Italiana S.p.A., of independent directors avv. Marco Janni, dott. Roberto Rezzonico and dott. Mauro Sala;
- assigned:
  - to Chairman dott. Urbano Cairo, the main executive and management powers (with the exception of, *inter alia*, significant transactions and related party transactions of greater importance);
  - to CEO dott. Uberto Fornara, the powers to manage and develop advertising sales, as well as the sales network staff involved;
  - to dott. Marco Pompignoli, the task of overseeing and supervising Group administration, finance and management control functions;
- approved the guidelines to conduct significant transactions and to treat classified information;
- appointed:

- the members of the Compensation Committee, composed of non-executive directors avv. Antonio Magnocavallo, Chairman, dott. Roberto Rezzonico (independent) and avv. Marco Janni (independent),
- the members of the Audit Committee, composed of non-executive directors dott. Roberto Rezzonico (independent), Chairman, dott. Mauro Sala (independent) and avv. Antonio Magnocavallo,
- the members of the Related Party Committee, composed of the three independent directors avv. Marco Janni, Chairman, dott. Roberto Rezzonico and dott. Mauro Sala;
- avv. Marco Janni as Lead independent director.

In particular, the Board, regarding the assessment of the independence requirements of avv. Marco Janni and dott. Roberto Rezzonico (who have been directors of the Company for more than nine years in the last twelve), and of dott. Mauro Sala (who has been auditor of the Company for more than nine years in the last twelve), after acknowledging the relevant opinion expressed upon the Company's request by prof. Matteo Rescigno (full professor of business law at the University of Milan), with the abstention of the persons involved, in consideration of the persistence of the independence requirements under art. 148, paragraph 3 of the Consolidated Finance Act, and non-persistence of the most common cases that are indicative of absence of independence listed in application criterion 3.C.1 of the Corporate Governance Code (letters from a) to h), with the exception of the case referred to in sub e), given the non-binding nature of the foregoing application criteria for the purposes of attributing the qualification of independence - considering the absence, broadly speaking, of objective and unequivocal cases in fact proving the existence of specific relations with the Issuer or with subjects associated with the Issuer (such as, for instance, the majority shareholder, etc.) and, in particular:

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

(ii) the acknowledged professional qualities and integrity of the directors in question, who are renowned professionals with their own practice;

(iii) the small incidence of compensation established by the Shareholders' Meeting for the Board of Directors, inclusive of compensation for participation of a number of directors in committees prescribed by law and regulations, on the total remuneration of the foregoing directors;

(iv) taking also into account the Company's interest to still avail itself of the directors' professional qualities, specific experience and deep knowledge of its inner workings, gained during their tenure,

confirmed the persistence of the independence requirements of the foregoing directors. The Board of Auditors, after taking note, verified the proper application of the criteria adopted by the Board of Directors to assess the independence of its members.

Mention must be made that 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. In the hearing, following the oral procedure, the Board reserved to file the arbitration award by 4 October 2011.

Principal risks and uncertainties to which the Group is exposed and which could have an effect on the management outlook for the second half of 2011

The Directors' Report on Operations in the financial statements as at 31 December 2010 includes a description, to which reference is made, of the main risks and uncertainties Cairo Communication S.p.A. and the Group are exposed to and the strategies and activities undertaken to monitor and address them. Specifically:

- Risks relating to the general economic situation and the potential effects of on-going uncertain short and medium-term economic conditions on Group activities, strategies and future prospects.
- Risks relating to the trend of the advertising and publishing markets, mainly linked with the general contraction of sales and the trend of the advertising market, magazines in particular.
- Risks relating to the evolution of the media segment, due to both the penetration of new media, in particular the Internet and pay TV, and to changes in the regulatory framework of this segment.

- Risks relating to the relevance of advertising brokerage contracts with third-party publishers, for whom Cairo Communication Group operates as a broker for the sale of advertising space.
- Risks relating to management and to "key figures", that is the ability of the Group's executive directors and other members of management to efficiently manage the Group, and their ability to attract and retain new and qualified personnel.
- Risks relating to the preservation of the brand value of the Group's titles, through the preservation of current levels of quality and innovation.
- Risks relating to contractual commitments which include minimum guaranteed fees to third parties (LA7 and LA7d).
- Risks relating to relationships with third-party subcontractors supplying production processes, particularly in printing.
- Risks relating to litigation, as illustrated in the "*Other information*" section (Note 23 to the condensed consolidated half-year financial statements), with information on the main litigation proceedings.

This interim half-year report describes the treatment of risks that could have an effect on the management outlook for the second half of 2011, notwithstanding the risks of a financial nature.

Risks relating to the general economic situation

The economic, equity and financial position of the Cairo Communication Group may be influenced by various factors within the macro-economic environment.

In 1H11, uncertainty continued to loom over the short and medium-term economic landscape. To date, despite signs of recovery in 2010, mainly in the TV advertising market, there remains uncertainty over the period required for a return to normal market conditions. The evolution of the general economic situation could affect the full achievement of the Group's economic targets.

Risks relating to the trend of the advertising and publishing markets

The persisting situation of uncertainty on the short and medium-term economic landscape in 2011 continues to impact negatively on the advertising market.

Nielsen's analysis by media shows that in the January-May five-month period of 2011:

- magazine advertising revenues dropped by 1.4% versus 2010, when the market had slipped by 9.3% versus 2009,
- the TV advertising market fell by 2.3% versus 2010, when it had grown by 6% versus 2009.

The Cairo Communication Group is greatly exposed to advertising revenues, although such exposure has gradually diminished thanks to the strong growth of the publishing segment. Advertising revenues (including also advertising revenues of Group magazines) in 2010 accounted for approximately 72% of total Group revenues. Taking only the Group's publishing segment into consideration, advertising revenues in 2010 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 published products.

The result in 2H11 may be affected, to a certain extent, by the negative trend of magazine advertising sales and by the evolution of the trend of the TV advertising market.

The economic situation as a whole negatively affected the sales of dailies and magazines.

Risks relating to contractual commitments

The three-year advertising concession contract (2009-2011) for LA7 signed in November 2008, renewed automatically for three more years if the agreed 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 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. 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.

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 1H11:

- advertising revenues on La 7, amounting to approximately Euro 84.2 million, largely exceeded the minimum contractual half-year revenue target of Euro 63.6 million, as well as the additional targets (unguaranteed) set by the agreement of December 2010;
- the advertising revenues on La 7D, amounting to approximately Euro 4.7 million, exceeded the minimum contractual half-year target (Euro 4.2 million).

The 2H11 result may be affected by the achievement or less of the minimum gross advertising revenue targets set by the (i) advertising concession contract for La 7 and by the (ii) advertising concession contract for La7D.

Based on the order book as at 28 July 2011 for advertising aired and to be aired on LA7 in the July-August two-month period, amounting to Euro 13.3 million, the minimum contractual revenue target for this period, equal to Euro 9.6 million, and the revenues achieved in the same period of 2010 (Euro 10.2 million), have already been exceeded respectively by over 30% and 38%.

Risks relating to litigation

The notes to *"Other information"* (Note 23 of the explanatory notes to the condensed half-year financial statements) contain information on a number of disputes. 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.

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. Client concentration/total sales remained basically unchanged versus the previous 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 2011, average payment terms for advertising sales have improved versus 2010 of about 6 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 very significant percentage of the estimated sales of each magazine.
The Group's maximum theoretical exposure to credit risk as at 30 June 2011 is given by the book value of trade receivables and other recorded receivables totaling Euro 113.2 million, and by the face value of guarantees furnished on third-party debts or commitments as indicated in Note 23 to the consolidated financial statements.
The credit risk associated with cash and cash equivalents, with a maximum theoretical exposure of Euro 48.2 million, is considered irrelevant, since being deposits spread across various banks, with the above-mentioned criteria illustrated in the notes to "liquidity risk".

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 48.2 million, whilst on the other hand, the Group attempts to ensure that an appropriate ability to generate cash from operations 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, spread across various banks, 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.

Risks relating to 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 the 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.

Other information

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 in 1H11 and its composition as at 30 June 2011 can be analyzed as follows:

Description	**01/01/2011**	**Recruitments**	**Terminations**	**Advancements**	**30/06/2011**
Permanent contracts	258	9	(7)	-	260
Senior managers	15	-	(1)	-	14
Managers	19	1	-	-	20
Employees	125	7	(3)	-	129
Journalists and freelance	99	1	(3)	-	97
Temporary contracts	3	3	(1)	-	5
Senior managers	-	-	-	-	-
Managers	-	-	-	-	-
Employees	2	2	-	-	4
Journalists and freelance	1	1	(1)	-	1
Total	**261**	**12**	**(8)**	**-**	**265**

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

	Senior managers	Managers	Employees	Journalists
Men (number)	14	13	37	39
Women (number)	-	7	94	61
Average age	49	46	40	43
Seniority	9	9	9	10
Permanent contracts	14	20	129	97
Temporary contracts	-	-	4	1
Other	-	-	-	-
Graduates	11	7	34	44
Diploma holders	2	13	84	51
Middle school certificate holders	1	-	15	3

Most of the personnel (195) work in the publishing segment.

The advertising segment sales force is composed of approximately 100 agents (direct and indirect) headed up by senior sales managers and staff who, together with their team, ensure coordination with the editors and the promotion of special initiatives.

The Group is committed to occupational health and safety. There were no accidents in the workplace or claims for work-related illness during the period.

Environment

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

Significant events occurring after 1H11 and management outlook

As mentioned earlier, in 1H11 uncertainty continued to loom over the short and medium-term economic landscape. To date, despite signs of recovery seen in 2010, mainly in the TV advertising market, there remains uncertainty over the period required for a return to normal market conditions. Based on AC Nielsen figures, in the January-May five-month period of 2011, advertising investments in Italy amounted to approximately Euro 3.8 billion, down 2.8% versus last year (compared to -1.4% of the magazine advertising market and -2.3% of the TV advertising market versus the same period of 2010).

Despite such a harsh backdrop, in 1H11 the Group's operating results progressed strongly versus 1H10, thanks 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 2011, the Cairo Communication Group will continue to develop its core businesses:

- publishing, led by Cairo Editore and Cairo Publishing, with the aim of maintaining distribution levels high, continuing to benefit from the levels of efficiency reached thanks to the production, publishing and distribution cost-curbing measures, and
- advertising sales on TV, on the titles of the Group and of Prima Comunicazione, on the Internet and at the at the Olimpico in Turin for Torino FC, with the aim of increasing advertising revenues thanks also to the surge in shares of La7.

As mentioned earlier, starting from September 2010, LA7 audience figures shot up and increased further in the January-June six-month period of 2011 (3.63% average all-day share versus 2.81% in 1H10), suggesting that the pace can be maintained in the upcoming months, impacting positively on advertising revenues. In particular, the 8 PM newscast's share in 1H11 exceeded the 10% share for 48 times (9.06% average share in 1H11 versus 2.64% in 1H10), gaining widespread attention across the media, with benefits trickling down to the top news and in-depth programmes produced by the channel, such as "L'infedele" (6.25% average share versus 3.59% in 1H10), "Otto e mezzo" (6.33% average share versus 3.07% in 1H10), "Omnibus" and "Le invasioni barbariche".

Based on the order book as at 28 July 2011 for advertising aired and to be aired on LA7 in the July-August two-month period, amounting to Euro 13.3 million, the minimum contractual revenue target for this period, equal to Euro 9.6 million, and the revenues achieved in the same period of 2010 (Euro 10.2 million) have already been exceeded respectively by over 38% and 30%.

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.

Chairman of the Board of Directors

Dott. Urbano Cairo

CAIROCOMMUNICATION

Condensed interim consolidated financial statements as at and for the six months ended 30 June 2011

CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2011

€thousands	Notes	Half-year ended 30 June 2011	Half-year ended 30 June 2010
Net sales	1	138.129	116.644
Other operating revenues	2	1.239	1.296
Non-recurring income from Cairo-Telepiù arbitration	2	-	6.792
Inventory movements of finished products	3	(111)	(94)
Materials and supplies	4	(11.510)	(12.214)
Costs for services	5	(97.014)	(79.473)
Rental expenses	6	(1.082)	(1.121)
Personnel costs	7	(11.582)	(10.981)
Amortization, depreciation, provisions and write-downs	8	(1.823)	(2.157)
Other operating costs	9	(426)	(444)
Operating profit		**15.820**	**18.248**
Net financial income	10	581	110
Pre-tax profit		**16.401**	**18.358**
Income tax	11	(5.862)	(7.069)
Net profit (loss) from continuing operations		**10.539**	**11.289**
Net profit (loss) from discontinued operations	12	**(4)**	**(62)**
Net profit		**10.535**	**11.227**
- Group share		10.531	11.225
- Minorities' share of profit/(loss) from discontinued operations		0	0
- Minorities' share of profit/(loss) from continuing operations		4	2
		10.535	**11.227**
Earnings per share (€)			
- Earnings per share from continuing and discontinued operations	14	0,136	0,145
- Earnings per share from continuing operations	14	0,136	0,146

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2011

		Half-year ended 30 June 2011	Half-year ended 30 June 2010
Net profit		**10.535**	**11.227**
Profit (loss) from valuation of financial assets available for sale	17	(8)	(849)
Total statement of comprehensive income for the period		**10.527**	**10.378**
- Group share		10.523	10.376
- Minorities' share of profit/(loss) from discontinued operations		0	0
- Minorities' share of profit/(loss) from continuing operations		4	2
		10.527	**10.378**

CONSOLIDATED STATEMENT OF FINACIAL POSITION

€ thousands **Assets**	**Notes**	**30 June 2011**	**31 December 2010**
Property, plant and equipment	15	2.499	2.656
Intangible assets	16	9.366	9.552
Investments	17	2.247	2.255
Non-current financial assets		57	64
Deferred tax assets	18	4.433	4.480
Total non-current assets		**18.602**	**19.007**
Inventory	19	3.290	2.952
Trade receivables	19	96.356	93.942
Receivables from parent company	19	674	63
Miscellaneous receivables and other current assets	19	16.252	14.792
Marketable securities	21	79	79
Cash and cash equivalents	21	48.142	58.260
Total current assets		**164.793**	**170.088**
Assets held for sale		0	0
Total assets		**183.395**	**189.095**

Equity and liabilities		**30 June 2011**	**31 December 2010**
Share capital		4.074	4.074
Share premium reserve		49.586	51.081
Net profit / (loss) of previous periods and other reserves		(1.685)	(5.700)
Net profit / (loss) for the period		10.531	20.729
Net Group equity		**62.506**	**70.184**
Share capital and reserves of minorities		**4**	**0**
Total equity	**22**	**62.510**	**70.184**
Provision for retirement benefits and staff severance	20	4.063	3.891
Provisions for risks and charges	20	1.893	2.124
Total non-current liabilities		**5.956**	**6.015**
Current borrowings	21	0	0
Trade payables	19	101.394	97.787
Payables to parent company	19	1.267	3.928
Tax payables	19	2.140	2.281
Other current liabilities	19	10.128	8.900
Total current liabilities		**114.929**	**112.896**
Liabilities of assets held for sale or discontinued		0	0
Total liabilities		**120.885**	**118.911**
Total equity and liabilities		**183.395**	**189.095**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2011

€ thousands	Half-year ended 30 June 2011	Half-year ended 30 June 2010
CASH AND CASH EQUIVALENTS OPENING BALANCE	**58.260**	**43.741**
OPERATING ACTIVITIES		
Net profit	10.535	11.227
- non-recurring	*0*	3.670
Amortization	398	470
Net movement in intangible assets for arbitration	0	3.152
- non-recurring	*0*	3.152
Net financial income	(581)	(110)
Income tax	5.862	7.046
- non-recurring	*0*	3.122
Net movement in provision for employee and retirement benefits	172	88
Net movement in provisions for risks and charges	(231)	(307)
Cash flow from operating activities before movements in working capital	**16.155**	**21.566**
(Increase) / decrease in trade and other receivables	(3.874)	(2.101)
- non-recurring	*0*	(5.941)
Increase / (decrease) in trade and other payables	4.835	(4.415)
(Increase) / decrease in inventory	(338)	866
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	**16.778**	**15.916**
Income tax paid	(9.228)	(3.306)
Financial charges paid	(55)	(26)
NET CASH FLOW FROM OPERATING ACTIVITIES (A)	**7.495**	**12.584**
INVESTMENT ACTIVITIES		
(Acquisitions) / net disposals in PPE and intangible assets	(55)	(246)
Interest and financial income received	636	137
Net increase in other non-current assets	7	(3)
NET CASH USED IN INVESTMENT ACTIVITIES (B)	**588**	**(112)**
FINANCING ACTIVITIES		
Dividends paid	(19.393)	(15.515)
(Increase) decrease in treasury shares	1.200	0
(Increase)/ decrease in restricted bank deposits	0	7.543
- non-recurring	*0*	7.543
Other movements in net equity	(8)	0
NET CASH USED IN FINANCING ACTIVITIES (C)	**(18.201)**	**(7.972)**
NET CASH FLOW OF THE PERIOD (A)+(B)+(C)	**(10.118)**	**4.500**
CASH AND CASH EQUIVALENTS CLOSING BALANCE (1)	**48.142**	**48.241**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ thousands	Share capital	Share premium reserve	Net profit/(loss) of previous years & other reserves	Reserve financial assets available for sale	Net profit for the period	Net Group equity	Share capital and reserves of minorities	Total
Balance 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)**
Sale of treasury shares			781			**781**		**781**
Other movements						**0**	**1**	**1**
Total comprehensive profit for the period				(349)	12.034	**11.685**	**4**	**11.689**
Balance 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)**
Total comprehensive profit for the period				(1.775)	20.729	**18.954**	1	**18.955**
Balance at 31 December 2010	**4.074**	**51.081**	**(3.576)**	**(2.124)**	**20.729**	**70.184**	**0**	**70.184**
Allocation of profit			20.729		(20.729)	**0**		**0**
Dividend distribution		(1.495)	(17.898)			**(19.393)**		**(19.393)**
Sale of treasury shares			1.200			**1.200**		**1.200**
Other movements			(8)			**(8)**		**(8)**
Reclassification financial assets - available for sales			(2.132)	2.132		**0**		**0**
Total comprehensive profit for the period				(8)	10.531	**10.523**	4	**10.527**
Balance at 30 June 2011	**4.074**	**49.586**	**(1.685)**	**0**	**10.531**	**62.506**	**4**	**62.510**

CONSOLIDATED INCOME STATEMENT PURSUANT TO CONSOB RESOLUTION n. 15519 OF 27 JULY 2006

€ thousands	Half-year ended 30 June 2011	related party transactions (*)	% of total	Half-year ended 30 June 2010	related party transactions	% of total
Net sales	138.129	66	0,0%	116.644	56	0,0%
Other operating revenues	1.239	10	0,8%	1.296		
Non-recurring income	0			6.792		
Inventory movements of finished products	(111)			(94)		
Materials and supplies	(11.510)			(12.214)		
Service costs	(97.014)	(1.112)	1,1%	(79.473)	(698)	0,9%
Rental expenses	(1.082)			(1.121)		
Personnel costs	(11.582)			(10.981)		
Amortization, depreciation, provisions and write-dowı	(1.823)			(2.157)		
Other operating costs	(426)			(444)		
Operating profit	**15.820**			**18.248**		
Investment income	0			0		
Net financial income	581			110		
Pre-tax profit	**16.401**			**18.358**		
Income tax	(5.862)			(7.069)		
Net profit (loss) from continuing operations	**10.539**			**11.289**		
Net profit (loss) from discontinued operations	**(4)**			**(62)**		
Net profit	**10.535**			**11.227**		

(*) Related party transactions are detailed in subsequent Note 24 of the Explanatory Notes

CONSOLIDATED STATEMENT OF FINACIAL POSITION PURSUANT TO CONSOB RESOLUTION n. 15519 OF 27 JULY 2006

€ thousands

Assets	30 June 2011	of which related party transactions (*)	% of total	31 December 2010	party transactions (*)	% of total
Property, plant and equipment	2.499			2.656		
Intangible assets	9.366			9.552		
Investments	2.247	2.237	99,6%	2.255	10	0,4%
Non-current financial assets	57			64		
Deferred tax assets	4.433			4.480		
Total non-current assets	**18.602**			**19.007**		
Inventory	3.290			2.952		
Trade receivables	96.356	361	0,4%	93.942	451	0,5%
Receivables from parent company	674	674	100,0%	63	63	100,0%
Miscellaneous receivables and other current assets	16.252	24	0,1%	14.792		
Marketable securities	79			79		
Cash and cash equivalents	48.142			58.260		
Total current assets	**164.793**			**170.088**		
Assets held for sale	0			0		
Total assets	**183.395**			**189.095**		
Equity and liabilities	**30 June 2011**			**31 December 2010**		
Share capital	4.074			4.074		
Share premium reserve	49.586			51.081		
Net profit / (loss) of previous periods	(1.685)			(5.700)		
Net profit / (loss) for the period	10.531			20.729		
Net Group equity	**62.506**			**70.184**		
Share capital and reserves of minorities	**4**			**0**		
Total equity	**62.510**			**70.184**		
Staff severance	4.063			3.891		
Non-current borrowings	0			0		
Provisions for risks and charges	1.893			2.124		
Total non-current liabilities	**5.956**			**6.015**		
Current borrowings	0			0		
Trade payables	101.394	1	0,0%	97.787	239	0,2%
Payables to parent company	1.267	1.267	100,0%	3.928	3.928	100,0%
Tax payables	2.140			2.281		
Other current liabilities	10.128	150	1,5%	8.900		
Total current liabilities	**114.929**			**112.896**		
Liabilities of assets held for sale or discontinued	0			0		
Total liabilities	**120.885**			**118.911**		
Total equity and liabilities	**183.395**			**189.095**		

(*) Related party transactions are detailed in subsequent Note 24 of the Explanatory Notes

CONSOLIDATED STATEMENT OF CASH FLOWS PURSUANT TO CONSOB RESOLUTION n. 15519 OF 27 JULY 2006

€ thousands	Half-year ended 30 June 2011	of which related party transactions	Half-year ended 30 June 2010	of which related party transactions
CASH AND CASH EQUIVALENTS	**58.260**		**43.741**	
OPERATING ACTIVITIES				
Net profit	10.535	(1.021)	11.227	(642)
Amortization	398		470	
Net movement in intangible assets for arbitration	0		3.152	
Net financial income	(581)		(110)	
Income tax	5.862		7.046	
Net movement in provision for employee and retirement benefits	172		88	
Net movement in provisions for risks and charges	(231)		(307)	
Cash flow from operating activities before movements in working capital	**16.155**	**(1.021)**	**21.566**	**(642)**
(Increase) / decrease in trade and other receivables	(3.874)	(545)	(2.101)	414
Increase / (decrease) in trade and other payables	4.835	(2.749)	(4.415)	2.590
(Increase) / decrease in inventory	(338)		866	
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	**16.778**	**(4.315)**	**15.916**	**2.362**
Income tax paid	(9.228)		(3.306)	
Financial charges paid	(55)		(26)	
NET CASH FLOW FROM OPERATING ACTIVITIES (A)	**7.495**	**(4.315)**	**12.584**	**2.362**
INVESTMENT ACTIVITIES				
(Acquisitions) / net disposals in PPE and intangible assets	(55)		(246)	
Interest and financial income received	636		137	
Net increase in other non-current assets	7		(3)	
NET CASH USED IN INVESTMENT ACTIVITIES (B)	**588**	**0**	**(112)**	**0**
FINANCING ACTIVITIES				
Dividends paid	(19.393)		(15.515)	
(Increase) decrease in treasury shares	1.200		0	
(Increase)/ decrease in restricted bank deposits	0		7.543	
Other movements in net equity	(8)		0	
NET CASH USED IN FINANCING ACTIVITIES (C)	**(18.201)**	**0**	**(7.972)**	**0**
NET CASH FLOW OF THE PERIOD (A)+(B)+(C)	**(10.118)**	**(4.315)**	**4.500**	**2.362**
CASH AND CASH EQUIVALENTS CLOSING BALANCE	**48.142**		**48.241**	

NOTES

STRUCTURE, FORM AND CONTENT OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTING STANDARDS ADOPTED

Basis of preparation

The Group's condensed consolidated half-year financial statements have been prepared in accordance with IFRS international accounting standards issued by the International Accounting Standard Board (IASB) and approved by the European Union in accordance with Regulation 1606/2002. 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 present condensed consolidated half-year financial statements have been prepared in summary form according to IAS 34 – *Interim financial reporting*. They do not contain all the information required for the Annual Report and should therefore be read together with the Annual Report for the year ended 31 December 2010.

The same accounting standards applied to prepare the Group's consolidated financial statements for the year ended 31 December 2010 have been applied to prepare these consolidated half-year financial statements, with the exception of those described in the following paragraph "Accounting standards, amendments and interpretations applied from 1 January 2011".

The preparation of the consolidated half-year financial statements has required that Management make estimates and assumptions which affect the value of revenues, costs, assets and liabilities and the information relating to contingent assets and liabilities at the date of the interim financial statements. These estimates and assumptions have been based on Management's best evaluation. Should they, in the future, differ from the circumstances in effect at that time, they will be modified appropriately in the period in which the change in circumstances is recorded.

It should be noted, furthermore, that these evaluation processes, specifically the more complex ones, such as those relating to the calculation of potential losses in value of non-current assets, are generally carried out in their entirety during the preparation of the year-end financial statements when all necessary information is available, unless impairment indicators exist which require an immediate evaluation of the potential loss in value. Similarly, actuarial valuations, necessary for the calculation of the provision for retirement benefits and severance for staff and agents, are normally only carried out during the preparation of the year-end financial statements.

In general, no significant seasonal or cyclical fluctuations in sales revenues from Group activities exist between the first six months and the second six months of the financial year.

Income tax is recognized on the basis of the best estimate of the weighted average rate expected for the

entire financial year.

The amounts in these notes are shown in thousands of Euro.

Accounting standards, amendments and interpretations applied from 1 January 2011

The following accounting standards, amendments and interpretations were applied for the first time by the Group starting from 1 January 2011:

- On 4 November 2009, IASB issued a revised version of IAS 24 – *Related party disclosures*, which simplifies the nature of information required for transactions with government-controlled related parties and clarifies the definition of related parties. Specifically, the definition also includes companies controlled by parties on which the reporting entity exercises, either directly or indirectly, significant influence. It also removes the asymmetry of disclosures in the financial statements of related parties, makes equal the position of persons and companies for the purposes of determining related party relationship and requires disclosure also on commitments received and granted to related parties. The amendments introduced with the revision are applicable from financial years subsequent to 1 January 2011. The adoption of the amendment produced no effect in terms of measurement of the balance sheet and income statement items and/or on the disclosure of related party relationships provided in the 2011 half-year financial report.
- 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 following amendments, improvements and interpretations, effective as from 1 January 2011, govern circumstances that are alien to the Group as at the date of this half-year report, but could have accounting effects on future transactions or agreements:

- 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.
- Amendment to IFRS 1 and IFRS 7 - *Financial Instruments: additional disclosures*. Limited exemption from comparative IFRS 7 disclosure for first-time adopters, amendments to IFRS 1 and IFRS 7.

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

On 12 November 2009, IASB issued 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 “comprehensive income and loss” and no longer in the income statement.

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.

On 20 December 2010, IASB issued:

- a narrow amendment to IFRS 1 – *First-time adoption of International Financial Reporting Standards (IFRS)* to cancel reference to the date of 1 January 2004 it contained and described as date of transition to the IFRS, and to provide guidance on the presentation of the financial statements in compliance with IFRS following a period of severe hyperinflation. These amendments will be applicable as from 1 July 2011;
- a narrow amendment to IAS 12 – *Income tax* addressing the issue of measuring deferred tax relating to an asset depending on whether the company expects to recover the carrying amount of the asset through use or sale. As a result of the amendment, SIC-21 – *Income tax – Recovery of Revalued Non-Depreciable Assets* will no longer be applicable. The amendment is applicable as from 1 January 2012.

As at the date of this half-year report, the relevant EU bodies have yet to complete the harmonization process for application of the foregoing amendments and standards.

Form and content of the financial statements

The **consolidated 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 shown in the notes.

The **consolidated statement of comprehensive income** recognizes the "movements 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 financial effect of discontinued operations is reclassified in a single line of the income statement entitled "net profit / (loss) from discontinued operations", according to IFRS 5.

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

Failing all three conditions, the asset or liability is classified as non-current.

The **consolidated cash flow statement** is presented 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 consolidated 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.

Consolidation scope

There were no variations in the consolidation scope versus the consolidated financial statements for the year ended 31 December 2010.

The condensed half-year financial statements as at 30 June 2011 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 30/06/11	% Shareholding	Year end	Business	Consolidation method
Cairo Communication S.p.A.	Milan	4,074		31/12	Advertising	Full
Cairo Editore S.p.A.	Milan	1,043	99.95	31/12	Publishing	Full
Diellesei S.r.l. in liquidation	Milan	10	60	31/12	In liquidation	Full pro rata share of assets and liabilities owned (*)
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	100	31/12	Publishing	Full

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

NOTES TO THE CONSOLIDATED INCOME STATEMENT

Regarding the items of the consolidated income statement, here are the main components of cost and revenue for the half-year as at 30 June 2011 versus those as at 30 June 2010.

1. Net revenues

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

	Half-year as at 30/06/2011	Half-year as at 30/06/2010
Gross operating revenues	155,649	130,107
Advertising agency discounts	(17,520)	(13,463)
Net sales	**138,129**	**116,644**

Sales are realized exclusively in Italy and an analysis by geographic region is pointless. An analysis of sales by business segment is provided in Note 13.

Gross operating revenues can be analyzed as follows:

Description	Half-year as at 30/06/2011	Half-year as at 30/06/2010
TV advertising	100,482	73,993
Print media advertising	20,003	19,495
Stadium signage and electronic billboards	1,338	768
Internet advertising	556	382
Magazine over-the-counter sales	31,744	33,994
Subscriptions	1,544	1,461
Audiovisuals and miscellaneous	50	37
Books and catalogues	461	534
VAT relating to publications	(529)	(557)
Total gross operating revenues	**155,649**	**130,107**

In 1H11:

- TV advertising revenues (including La 7, La 7d, Sportitalia, theme channels Cartoon Network, Boomerang and CNN), totaling Euro 100.5 million, were up 35.8% overall versus 2010 (*ACNielsen*, versus the -2.3% of the TV advertising market in the January-May five-month period of 2011 versus the same period of 2010). Specifically, advertising revenues on LA7, amounting to approximately Euro 84.2 million, rose by 32% versus 2010 and outstripped the minimum contractual half-year target (Euro 63.6 million).
- sales revenues from Group publications, amounting to Euro 31.7 million, were down 6.6% versus 1H10, due also to the lower amount of issues of "Settimanale Dipiù" versus 2010 (25 instead of 26), shedding approximately Euro 0.6 million in profits, the cut price (from 1 Euro to 50 cents) of five issues of "Dipiù TV", losing approximately Euro 0.9 million, and the cut price (from 70 cents to 50 cents) of three issues of "TV Mia", dropping by approximately Euro 0.1 million.
- group gross advertising revenues, which reached Euro 19.5 million, were up 2.6% (*ACNielsen*, versus the -1.4% of the magazine advertising market in the January-May five-month period of 2011 versus the same period of 2010) versus 1H10 (Euro 19 million), despite one issue less of "Settimanale Dipiù", confirming the turnaround and positive trend that had already started in 2Q10.

"Operating revenues" also includes the Euro 50 thousand due from Torino Football Club S.p.A., a subsidiary of Cairo Communication's Parent company, U.T. Communications S.p.A, for administrative services provided, disclosed in Note 24 on related party transactions.

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2. Other operating revenues

Other operating revenues

"Other operating revenues", amounting in 1H11 to Euro 1,239 thousand (Euro 1,296 thousand as at 30 June 2010), are chiefly ascribable to revenues from waste paper pulping and paper sale (Euro 683 thousand), contingent assets (Euro 307 thousand), technical advertising recharges and other revenues not considered operating revenues.

Non-recurring income from Cairo-Telepiù arbitration

In the schedules of the consolidated income statement of 1H10, income from the arbitration pending from 2004 between Cairo Communication S.p.A. and Telepiù S.r.l., amounting to a €6,792 thousand, had been shown separately due to its non-recurring nature and size, as illustrated in the 2010 annual financial report, in the paragraph on "*Management performance of the Cairo Communication Group - consolidated figures"* of the Directors' Report on Operations and in the notes to the consolidated and parent company financial statements as at 31 December 2010 in the notes to *"Other revenues - non-recurring income from Cairo-Telepiù arbitration"*.

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3. Inventory movements of finished products

Inventory, amounting to Euro -111 thousand (Euro -94 thousand as at 30 June 2010), arises from the ordinary use of items sold by Cairo Editore and Cairo Publishing.

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4. Materials and supplies

Materials and supplies relate to the ordinary activities of Cairo Editore and Cairo Publishing, specifically:

Description	Half-year as at 30/06/2011	Half-year as at 30/06/2010
Paper	11,675	11,095
Purchase costs of equipment and various materials	283	348
Inventory movements in paper, equipment and various materials	(448)	771
Total materials and supplies	**11,510**	**12,214**

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5. Costs for services

As shown in the table below, "costs for services" mainly include advertising space fees, subcontractors' fees, consulting and other collaboration fees chiefly related to bordereau, advertising agency commissions, and general and administration costs. They can be analyzed as follows:

Description	Half-year as at 30/06/2011	Half-year as at 30/06/2010
Advertising space fees	68,385	52,574
Brokering fees	2,144	1,329
Agents' commissions	3,645	3,068
Technical costs	268	183
Consultants' fees	5,930	6,256
Subcontractors' fees	8,881	9,119
Advertising and promotion	2,723	2,530
Organizational and general costs	5,038	4,414
Total costs for services	**97,014**	**79,473**

The increase versus 1H10 in costs for advertising space fees, agents' commissions and brokering fees, is related to the strong performance of TV advertising revenues.

Advertising space fees also include the Euro 1,048 thousand, due to Torino Football Club S.p.A., a subsidiary of U.T. Communications S.p.A. for the advertising concession contract with Cairo Pubblicità S.p.A., illustrated in Note 24 on related party transactions.

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6. Rental expenses

Rental expenses, amounting to Euro 1,082 thousand as at 30 June 2011 (Euro 1,121 thousand as at 30 June 2010) mainly comprise rental fees paid for property, fees for the hire of office equipment and royalties for authors' rights.

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7. Personnel costs

These can be analyzed as follows:

Description	Half-year as at al 30/06/2011	Half-year as at al 30/06/2010
Salaries and wages	8,654	8,196
Social contributions	2,536	2,472
Provision for retirement benefits	392	313
Total personnel costs	**11,582**	**10,981**

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8. Amortization, depreciation, provisions and write-downs

These can be analyzed as follows:

Description	Half-year as at al 30/06/2011	Half-year as at al 30/06/2010
Amortization of intangible assets and depreciation of property, plant and equipment	399	470
Increase in provisions for bad debts	1,249	1,687
Other provisions	175	-
Total amortization, depreciation, provisions and write-downs	**1,823**	**2,157**

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9. Other operating costs

Other operating costs, amounting to Euro 426 thousand (Euro 444 thousand as at 30 June 2010), mainly include various taxes and contingent liabilities.

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10. Net financial income

These can be analyzed as follows:

Description	Half-year as at al 30/06/2011	Half-year as at al 30/06/2010
Financial income	636	136
Financial charges	(55)	(26)
Total	**581**	**110**

Financial income includes interest due on current account term deposits and on treasury current accounts on excess liquidity.

The variation in financial income is mainly due to the significant rise in interest rates versus 2010 (1.05% average Euribor in 1H11 versus 0.43% in 1H10).

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11. Income tax

This can be analyzed as follows:

Description	Half-year as at al 30/06/2011	Half-year as at al 30/06/2010
Ires	4,704	6,353
Irap	1,111	1,307
Deferred tax benefits	47	(591)
Total tax	**5,862**	**7,069**

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12. Net profit/(loss) from discontinued operations

This includes the net loss of Diellesei S.r.l. in liquidation, whose liquidation continued during the six-month period, which can be analyzed as follows:

Description	Half-year as at 30/06/2011	Half-year as at 30/06/2010
Other operating revenues	1	-
Cost of services	(5)	(37)
Personnel costs	-	(48)
Amortization, depreciation, provisions and write-downs	-	-
Operating profit	**(4)**	**(85)**
Net financial income (expenses)	-	-
Pre-tax profit	**(4)**	**(85)**
Income tax	-	23
Net profit/(loss) from discontinued operations	**(4)**	**(62)**

Regarding the financial situation, the following table shows the effects of Diellesei on the Group's cash availability:

Description	Half-year as at 30/06/2011	Half-year as at 30/06/2010
Net cash absorbed by the liquidation procedure	(23)	(118)
Net cash generated (absorbed) by financing activities	-	-
Net decrease during the period	**(23)**	**(118)**

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13. Segment information

For a clearer understanding of the Group's economic performance, an analysis can be made of the results of the main business segments in 1H11, identified according to IFRS 8 – *Operating segments*, on the basis of the internal reporting system regularly reviewed by Management. The application of IFRS 8 resulted in the same operating segments that applied before, as established according to IAS 14 – *Segment reporting*.

At a management level, the Group is organized in *business units,* consistent with the corporate organization of the Group based on the products and services offered, and has three reporting operating segments:

- **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 weeklies "Settimanale DIPIU'", "DIPIU' TV", "Diva e Donna", "TV Mia" and supplements "Settimanale DIPIU' and DIPIU'TV Cucina" and "Settimanale DIPIU' and DIPIU'TV Stellare" and monthlies "For Men Magazine", "Natural Style", Bell'Italia", "Bell'Europa", "In Viaggio", "Airone", "Gardenia", "Arte" and "Antiquariato" – and Cairo Publishing, which

publishes books;

- **advertising brokerage**, through Cairo Communication and Cairo Pubblicità, which operate together selling advertising space in print media for Cairo Editore and for Editoriale Genesis ("Prima Comunicazione"), and selling advertising space on TV for third parties TIMedia (La7 and La7d), Sportitalia and Turner Broadcasting (Cartoon Network, Boomerang, and CNN), on the Internet and for the sale of stadium signage and space at the Olimpico in Turin for Torino FC;
- **Il Trovatore,** which manages its search engine and provides technological services mainly to Group companies.

No aggregations were applied in defining the operating segments for these reporting purposes.

Half-year as at 30/06/2011 (6 months)	Publishing	Advertising	Trovatore	Unallocated operations	Intra group eliminations	Total
Net sales	33,337	104,764	28	-	-	138,129
Intra-segment sales	14,487	252	157	-	(14,896)	-
Other operating revenues	1,005	234	-	-	-	1,239
Non-recurring income	-	-	-	-	-	-
Inventory movements	(111)	-	-	-	-	(111)
Costs of sales	(31,965)	(92,825)	(138)	-	14,896	(110,032)
Personnel costs	(8,381)	(3,185)	(16)			(11,582)
Amortization, depreciation, provisions and write-downs	(718)	(1,101)	(4)	-	-	(1,823)
Operating profit (EBIT)	**7,654**	**8,139**	**27**	**-**	**0**	**15,820**
Investment income	-	-	-	-	-	-
Net financial income	124	458	(1)	-	-	581
Pre-tax profit	**7,778**	**8,597**	**26**	**-**	**0**	**16,401**
Income tax	(2,811)	(3,034)	(17)	-	0	(5,862)
Net profit from continuing operations	**4,967**	**5,563**	**9**	**-**	**0**	**10,539**
Net profit/(loss) from discontinued operations	-	-	-	(4)	-	(4)
Net profit	**4,967**	**5,563**	**9**	**(4)**	**0**	**10,535**
- Minorities	-	-	4	-	-	4

Half-year as at 30/06/2010 (6 months)	Publishing	Advertising	Trovatore	Unallocated operations	Intra group eliminations	Total
Net sales	35,253	81,378	13	-	-	116,644
Intra-segment sales	13,464	-	160	-	(13,624)	-
Other operating revenues	949	347	-	-	-	1,296
Non-recurring income	-	6,792	-	-	-	6,792
Inventory movements	(94)	-	-	-	-	(94)
Costs of sales	(33,299)	(73,451)	(126)		13,624	(93,252)
Personnel costs	(8,176)	(2,787)	(18)	-	-	(10,981)
Amortization, depreciation, provisions and write-downs	(729)	(1,420)	(8)			(2,157)
Operating profit (EBIT)	**7,368**	**10,859**	**21**			**18,248**
Investment income	-	-	-	-	-	-
Net financial income	6	105	(1)			110
Pre-tax profit	**7,374**	**10,964**	**20**			**18,358**
Income tax	(2,302)	(4,758)	(9)			(7,069)
Net profit from continuing operations	**5,072**	**6,206**	**11**			**11,289**
Net profit/(loss) from discontinued operations	-	-	-	(62)	-	(62)
Net profit	**5,072**	**6,206**	**11**	**(62)**		**11,227**
- Minorities			2			

Management monitors the operating results of the separate business units to decide on the allocation of resources and the evaluation of results. Transfer prices between the operating segments are defined on the basis of market conditions that would apply to transactions with third parties.

In application of the Improvement of IFRS 8 – *Operating segments,* total assets for each reportable segment are no longer reported, as they are not usually reviewed periodically by the chief operating decision maker.

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14. Earnings per share

Profit 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	Half-year as at 30/06/2011	Half-year as at 30/06/2010
€000's:		
Profit from continuing operations	10,539	11,289
Net profit / (loss) from discontinued operations	(4)	(62)
Net profit (€000s)	**10,535**	**11,227**
Weighted average number of shares outstanding	78,343,400	78,343,400
Weighted average number of treasury shares	(733,757)	(771,326)
Weighted average number of shares used in the calculation of earnings per share	**77,609,643**	**77,572,074**
€uro:		
Earnings per share from continuing operations	0,136	0,146
Earnings / (loss) per share from discontinued operations	(0,000)	(0,001)
Earnings/ (loss) per share from continuing and discontinued operations	**0.136**	**0.145**

NOTES TO THE CONSOLIDATED BALANCE SHEET

Assets and liabilities by category are analyzed according to the following notes.

15. Property, plant and equipment

The movement in PPE can be analyzed as follows:

Description	Property	Plant & Equipment	Other	Total
Net book value as at 31/12/2010	**1,450**	**128**	**1,078**	**2,656**
Additions	-	-	29	29
Disposals	-	-	-	-
Depreciation	(23)	(11)	(152)	(186)
Net book value as at 30/06/2011	**1,427**	**117**	**955**	**2,499**

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16. Intangible assets

The movement in intangible assets can be analyzed as follows:

Description	Concessions, licenses and trademarks	Goodwill	Titles	Total
Balances as at 31/12/2010	**284**	**7,198**	**2,070**	**9,552**
Additions	27	-	-	27
Disposals	-	-	-	-
Amortization	(82)	-	(131)	(213)
Balances as at 30/06/2011	**229**	**7,198**	**1,939**	**9,366**

Goodwill

Goodwill refers to the excess of the purchase price over the percentage attributable to the Group of the fair value of assets, liabilities and potential liabilities of some subsidiary companies at their date of purchase, net of related accumulated amortization as at 30 September 2004, as the Group chose to utilize 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, are as follows: approximately Euro 4.7 million in the publishing segment, approximately Euro 2.3 million in the advertising segment, and approximately Euro 0.2 million in Il Trovatore.

The Directors have verified the absence of indicators of long-term losses in the value of intangible assets during the period and have therefore not considered it necessary that any of these assets be subject to impairment testing.

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17. Investments and non-current financial assets

The movement in investments can be analyzed as follows:

Investments	Balance as at 31/12/10	Effects of fair value measurement	Reclassification	Balance as at 30/06/11
Cairo Sport S.r.l.	10	-		10
Total subsidiaries	**10**	**-**		**10**
Dmail Group S.p.A.	-	-	2,226	2,226
Total associate companies	**-**	**-**	**2,226**	**2,226**
Dmail Group S.p.A.	2,234	(8)	(2,226)	-
Other	11	-	-	11
Total other	**2,245**	**(8)**	**(2,226)**	**11**
Total	**2,255**	**(8)**	**-**	**2,247**

The subsidiary Cairo Sport S.r.l. was measured at cost, which does not vary significantly from the net equity method valuation.

In the half-year financial report as at 30 June 2011, the investment held in Dmail Group S.p.A. (765.000 shares, or 10% of the share capital) was reclassified from "other investments" ("available for sale") to "associate companies", with the resulting net equity method valuation at the end of each reporting period. The reclassification is due to the fact that:

- on 8 April, Cairo Communication and another shareholder submitted the list of candidates for the renewal of the company bodies, Board of Directors and Board of Auditors, exercising for the first time since holding the investment (2005) the rights deriving from the list vote;
- submission of the lists, hence exercise of such rights, is intended to have greater influence on the management of the associate company, whose new Board of Directors is currently working on a multi-year business plan to re-launch business and pursue greater levels of business efficiency.

For the purposes of the reclassification, the date of reference of 8 April (date of the submission of the lists) and a book value of Euro 2.91 per share (average price 1 January 2011 - 8 April 2011) have been taken as basis.

On 9 May 2011, the Shareholders' Meeting of DMail Group appointed dott. Fabio Tacciaria as member of the Board of Directors and dott. Luca Berta as Chairman of the Board of Auditors, both drawn from the minority lists jointly submitted by Cairo Communication S.p.A. and Niteroi S.r.l.

"Effects of the fair value measurement" refers to the book value adjustment of the investment as at 8 April 2011, with a corresponding item of Euro 8 thousand in the statement of comprehensive income and in equity.

Following the foregoing reclassification, the negative reserve in net equity relating to investments available for sale, amounting to Euro 2,132 thousand, was reclassified under "profit and loss from

previous periods and other reserves”.

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18. Deferred tax assets

Deferred tax assets were Euro 4,433 thousand as at 30 June 2011 (Euro 4,480 thousand as at 31 December 2010). They arise from the recognition of deferred tax on the timing differences between the values of assets and liabilities reported in the financial statements and their tax values.

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19. Working capital

Working capital can be analyzed as follows:

Description	Total 30/06/10	Total 31/12/10	Change
Inventory	3,290	2,952	338
Trade receivables	96,356	93,942	2,414
Receivables from parent company	674	63	611
Miscellaneous receivables and other current assets	16,252	14,792	1,460
Trade payables	(101,394)	(97,787)	(3,607)
Payables to parent company	(1,267)	(3,928)	2,661
Tax payables	(2,140)	(2,281)	141
Other current liabilities	(10,128)	(8,900)	(1,228)
Total working capital	**1,643**	**(1,147)**	**2,790**

Inventory includes the inventory of Cairo Editore S.p.A. and Cairo Publishing S.r.l. comprising raw materials, mainly paper, work in progress and finished products, mainly books. Inventory is shown net of a provision for obsolescence of Euro 942 thousand.

Trade receivables are shown net of a provision for bad and doubtful debts of Euro 10,573 thousand (Euro 9,534 thousand as at 31 December 2010). The provision for bad and doubtful debts increased by Euro 1,249 thousand. This provision considers both specific collection risks and general market collection risks, taking also into account the advertising concession agreements stipulated by the Group with its media clients, specifically third-party clients, which usually allocate a percentage of losses on receivables to clients.

Parent company receivables and payables, amounting to Euro 674 thousand and to Euro 1,267 thousand, mainly refer to receivables from (Euro 613 thousand) and payables to (Euro 1,267 thousand) the parent company U.T. Communications S.p.A., arising from the consolidated national tax return to which Cairo Communication and its subsidiaries, Cairo Editore, Cairo Pubblicità, Diellesei in liquidation, Cairo Due

and Cairo Publishing adhered, as mentioned in Note 24 on related party relationships.

Miscellaneous receivables and other current assets also include:

- Euro 7.5 million, the credit balance from Telepiù arising from the arbitration award mentioned in Note 2, which Telepiù offset against the restricted deposit mentioned in Note 23 *"marketable securities"* to the consolidated financial statements as at 31 December 2010, for grounds which Cairo has challenged in court. Specifically, 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);
- Euro 1.8 million, which is the residual amount of the one-off payment acknowledged in December 2009 to 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. Furthermore, in 2010, Interactive Group 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. "Miscellaneous receivables" also include the receivables (Euro 2.6 million plus VAT) from Interactive Group, equal to the difference between amount accrued and advance payments in 2010.

Trade payables amount to Euro 101,394 thousand, rising by Euro 3,607 thousand versus 31 December 2010, relating entirely to current payables.

Other current liabilities, amounting as at 30 June 2011 to Euro 10,129 thousand (Euro 8,900 thousand as at 31 December 2010) mainly include advance payments received from clients for new magazine subscriptions, payables to personnel for holiday pay and salary accruals, payables resulting from amounts recharged to publishers for their share of bad debts, whose write off has not yet been verified definitively, accrued expenses and deferred income.

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20. Non-current and non-financial assets and liabilities

Provision for retirement benefits and staff severance

The provision for retirement benefits and staff severance reflects allocations for all staff employed at the date of the consolidated financial statements made on the basis of the application of the projected unit credit based on actuarial valuations.

The composition and movement on this provision is broken down as follows:

	Balance as at 30/06/11	Balance as at 31/12/10
Opening balance	**3,891**	**3,813**
Increase in provision	392	651
Utilized / other movements	(220)	(573)
Closing balance	**4,063**	**3,891**

Provisions for risks and charges

The provisions for risks and charges includes:

Description	30/06/11	31/12/10	Change
Provision for retirement and kindred outlays	956	956	0
Provision for publishing returns	326	697	(371)
Provision for liquidation expenses	88	102	(14)
Provisions for other risks and charges	523	369	154
Total	**1,893**	**2,124**	**(231)**

21. Net financial position

The net financial position of the Group can be analyzed as follows:

Description	30/06/11	31/12/10	Change
Cash and cash equivalents	48,142	58,260	(10,118)
Current financial assets	79	79	-
Total	**48,221**	**58,339**	**(10,118)**

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

As seen in the consolidated cash flow statement, the decrease in the net financial position, amounting to Euro 10,118 thousand, refers mainly to the distribution of dividends of Euro 19,393 thousand, net of positive cash flows generated by operations amounting to Euro 7,495 thousand.

In the cash flow statement, net closing cash and cash equivalents do not include current financial assets for Euro 79 thousand.

22. Consolidated net equity

Consolidated net equity as at 30 June 2011 was Euro 62,510 thousand, including net profit for the period.

The share capital of Cairo Communication S.p.A., currently €4,074 thousand, is made up of 78,343,400 ordinary shares.

The Shareholders' Meeting of 28 April 2011 approved the distribution of a dividend of Euro 0.25 Euro per share, inclusive of tax, with detachment date on 9 May 2011 (coupon n. 3 post-split), for a total of Euro 19.4 million.

In 2011, as part of the share buy-back plans, 400,000 treasury shares were sold (0.511% of the share capital) following entry in the shareholding structure of an institutional investor of prominent standing, at a unit price of Euro 3.00 per share, equivalent to a total value of Euro 1.2 million. As a result of the sale, as at 30 June 2011 Cairo Communication held a total of n. 371.326 treasury shares, or 0.474% of the share capital, subject art. 2357-ter of the Civil Code.

As mentioned in Note 17, the reclassification of the investment held in Dmail Group S.p.A. from "other investments" to "associate companies" has determined the reclassification of the negative reserve in net equity relating to investments available for sale, amounting to Euro 2,132 thousand, under the caption "profit and loss from previous periods and other reserves".

23. Other information

Main guarantees given by third parties to the Cairo Communication Group are as follows:

- a guarantee of Euro 16.8 million expiring on 15 June 2012 issued by Banca Popolare di Milano to Telecom Italia Media S.p.A. (Telecom Group), securing payment of minimum guaranteed fees specified in the contract for the exclusive sale of TV advertising space on La7;
- guarantees totaling Euro 331 thousand issued by credit institutes.

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. In the hearing, following the oral procedure, the Board reserved to file the arbitration award by 4 October 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.

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 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. 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,

including 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. Cairo Communication has appealed to Provincial Tax Commission of Milan against such tax demand. 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.

24. Related party transactions

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

The Group holds relations with the parent company (U.T. 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 1H11 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 1H11 consolidated income statement of the Cairo Communication Group are as follows:

Revenues and costs (Euro/thousands)	**Operating profits**	**Operating costs**	**Financial income**	**Financial expenses**
Parent company				
UT Communications S.p.A.	-	-	-	-
Jointly-controlled companies				
Torino FC S.p.A.	76	1,112	-	-
Total	**76**	**1,112**	**-**	**-**

The effects of these relations on the consolidated balance sheet of the Cairo Communication Group as at 30 June 2011 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	-	613	-
Jointly-controlled companies				
Torino FC S.p.A.	300	-	-	-
MP Service S.r.l.	-	24	-	-
Total	**361**	**24**	**613**	-

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.	-	-	1,267	-
Jointly-controlled companies				
Torino FC S.p.A.	-	150	-	-
Total	-	150	1,267	-

In 1H11, the relations and transactions with the parent company U.T. Communications and with its subsidiaries can be analyzed as follows:

- the concession contract signed by Cairo Pubblicità with Torino Football Club S.p.A. for the sale of advertising slots on the football pitch side-lines and promotional sponsorship packages. The contract provides for the concession to the seller of a percentage (85%) of the profits gained, net of advertising

agency discounts relating to contracts signed directly and invoiced by Cairo Pubblicità, granting the latter 2% for contracts signed directly by Torino FC; in 1H11, this contract resulted in the payment of Euro 1,237 thousand against total revenues of approximately Euro 1,048 thousand, net of agency discounts. Cairo Pubblicità accrued further commissions of Euro 16 thousand. As part of the advertising contract, Cairo Pubblicità also purchased football tickets worth Euro 14 thousand and recharged Torino pertaining costs of Euro 10 thousand;

- the purchase by Cairo Pubblicità of receivables due to Torino F.C. S.p.A. from Dahlia TV S.p.A.; specifically, the transaction involved the sale with recourse from Torino FC to Cairo Pubblicità of receivables accrued by Torino FC to Dahlia TV for a total of Euro 300 thousand, under a sponsorship contract signed on 5 October 2009, promoted by Cairo Pubblicità, entitling a fee from Torino FC;
- the contract signed by Cairo Communication S.p.A. and Torino F.C. for the provision of administrative services, such as book-keeping; in 1H11, this agreement generated revenues of Euro 50 thousand;
- the agreement relating to the purchase of advertising slots on the football pitch side-lines between Cairo Editore and Torino FC. In 1H11, advertising spaces were acquired for a total of Euro 50 thousand;
- 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 half-year financial report as at 30 June 2011 includes receivables from and payables due to the parent company UT Communications S.p.A. of Euro 613 thousand and Euro 1,267 thousand, respectively.

On 12 May 2011, the Board of Directors, on the proposal of the Compensation Committee and the favourable opinion of the Related Party Committee, pursuant to art. 2389, paragraph 3 of the Civil Code, resolved for:

- compensation to Chairman Urbano Cairo, CEO Uberto Fornara, and Director Marco Pompignoli, who hold particular responsibilities, amounting respectively to Euro 480 thousand, Euro 60 thousand and Euro 90 thousand,
- a variable compensation mechanism for CEO Uberto Fornara, based mainly on advertising revenue growth targets.

<u>25 Transactions deriving from atypical and/or unusual transactions</u>

Pursuant to Consob Communication of 28 July 2006 n.DEM/6064293, mention must be made that in 1H11, Cairo Communication made no atypical and/or unusual transactions as defined by the Communication.

As explained in Note 2, in the schedules of the consolidated income statement as at 30 June 2010, income deriving from the arbitration pending from 2004 between Cairo Communication S.p.A. and Telepiù S.r.l. has been shown separately owing to its non-recurring nature and size.

26 Subsequent events

There were no significant events after the end of the period.

Chairman of the Board of Directors

Dott. Urbano Cairo

List of significant investments in accordance with Article 125 of Consob Regulation 11971/1999 and subsequent amendments

Company	Country of origin	% Ownership	Direct or indirect holding	Shareholder	Shareholding %
Cairo Editore S.p.A.	Italy	99.95	Direct	Cairo Communication S.p.A	99.95
Diellesei S.r.l. in liquidation	Italy	60	Direct	Cairo Communication S.p.A	60
Cairo Due S.r.l.	Italy	100	Direct	Cairo Communication S.p.A	100
Cairo Pubblicità S.p.A.	Italy	100	Direct	Cairo Communication S.p.A	100
Cairo Publishing S.r.l.	Italy	100	Direct	Cairo Communication S.p.A	100
Il Trovatore S.r.l.	Italy	80	Direct	Cairo Communication S.p.A	80
Edizioni Anabasi S.r.l.	Italy	100	Indirect	Cairo Editore S.p.A.	100
Cairo Sport S.r.l.	Italy	100	Direct	Cairo Communication S.p.A	100

Statement on the condensed interim consolidated financial statements pursuant to Article 81 (iii) of Consob Regulation 11971 of 14 May 1999 and subsequent amendments and additions

1. The undersigned Urbano Roberto Cairo, Chairman of the Board of Directors, and Marco Pompignoli, Financial Reporting Manager of Cairo Communication S.p.A., declare – also in accordance with Article 154 (ii), sections 3 and 4 of Leg. Dec. February 24, 1998 – n. 58:

• the suitability of the characteristics of the company (taking note of any changes taking place during the half-year period) and

• the actual application of administrative and accounting procedures for the preparation of the condensed consolidated financial statements for the first half of 2011.

2. We also declare that

2.1 the condensed consolidated financial statements as at 30 June 2011:

a) have been prepared in compliance with applicable International Financial Reporting Standards adopted by the European Union, pursuant to EEC Regulation 1606/2002 of the European Parliament and Council, of 19 July 2002;
b) correspond to the results of the books and accounting entries of the Company;
c) are suitable to furnish a true and correct representation of the equity, income and cash flow situation of the Issuer and the combination of the companies included in the consolidation.

2.2 The Interim Management Report contains reference to all significant events that have taken place during the first six months of the financial year and their effect on the condensed consolidated half-year financial statements, together with a description of the principal risks and uncertainties expected in the second half of the financial year, as well as significant transactions with related parties.

Milan, 29 July 2011

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

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(Translation from the Italian original which remains the definitive version)

Auditors' report on review of condensed interim consolidated financial statements

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

1 We have reviewed the condensed interim consolidated financial statements of the Cairo Communication Group as at and for the six months ended 30 June 2011, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The parent's directors are responsible for the preparation of these condensed interim consolidated financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union. Our responsibility is to prepare this report based on our review.

2 We conducted our review in accordance with Consob (the Italian Commission for Listed Companies and the Stock Exchange) guidelines set out in Consob resolution no. 10867 dated 31 July 1997. The review consisted primarily of the collection of information about the captions of the condensed interim consolidated financial statements and the consistency of application of the accounting policies through discussions with company directors and analytical procedures applied to the financial data presented in such condensed interim consolidated financial statements. The review excluded such audit procedures as tests of controls and substantive procedures on assets and liabilities and is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. As a consequence, contrary to the report of other auditors on the annual consolidated financial statements, we do not express an audit opinion on the condensed interim consolidated financial statements.

The comparative figures included in the condensed interim consolidated financial statements were respectively audited and reviewed by other auditors and, therefore, reference should be made to their reports on the annual consolidated and condensed interim consolidated financial statements of the previous year dated 4 April 2011 and 4 August 2010, respectively.

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3 Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of the Cairo Communication Group as at and for the six months ended 30 June 2011 have not been prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union.

Milan, 3 August 2011

KPMG S.p.A.

(signed on the original)

Francesco Spadaro
Director