CAIRO COMMUNICATION

Quarterly Report at 30 June 2007

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

Quarterly report at 30 June 2007

Corporate Governance

Board of Directors

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

Board of Auditors

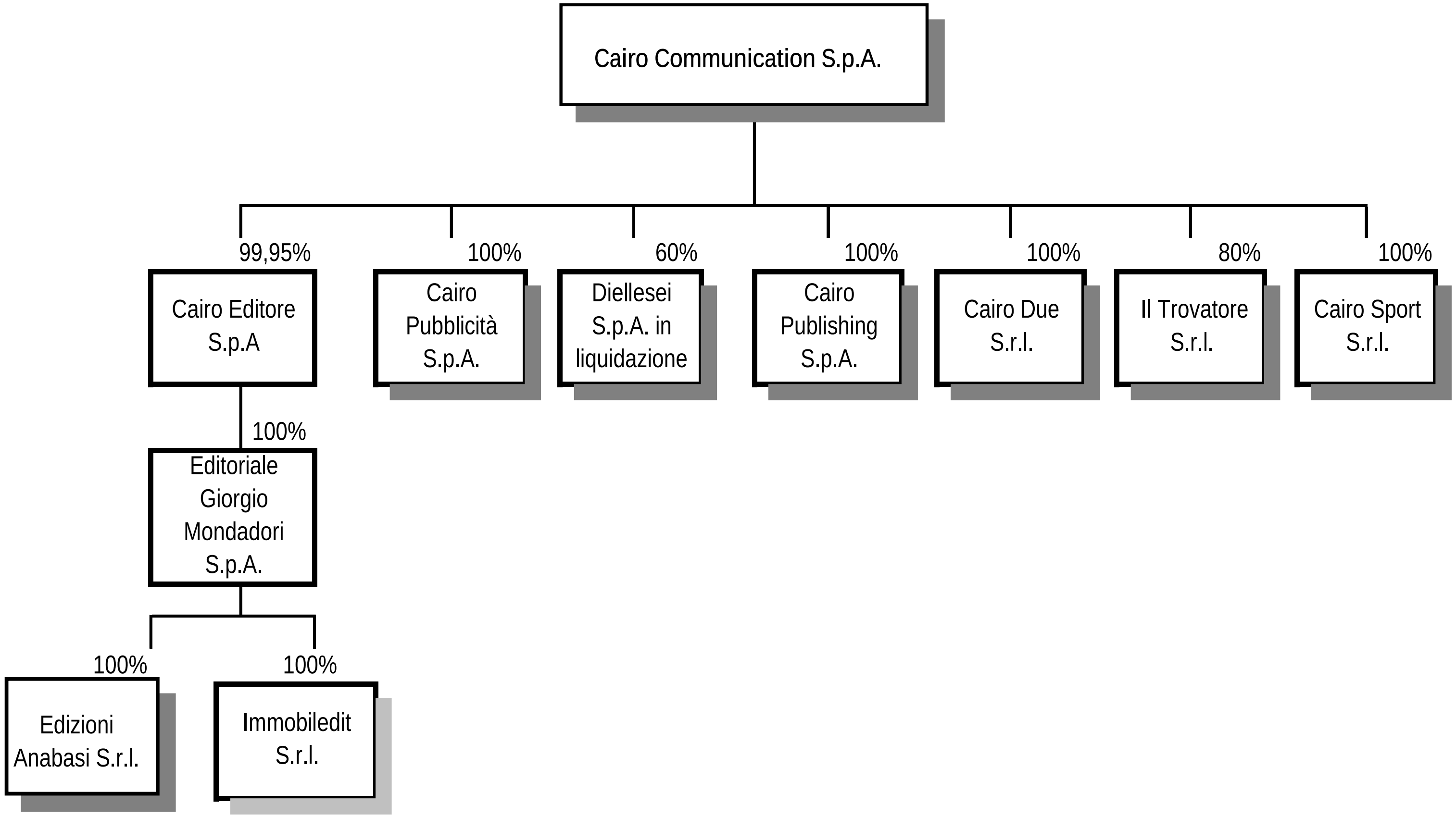
Mauro Sala	Chairman
Marco Baccani	Principal auditor
Maria Pia Maspes	Principal auditor
Mario Danti	Alternate auditor
Ferdinando Ramponi	Alternate auditor

Statutory Auditors

Deloitte & Touche S.p.A.

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

Cairo Communication Group Structure



1. 1. Basis of preparation and valuation principles

Cairo Communication Group applied the IAS/IFRS international accounting standards in preparation of its consolidated financial statements at 30 September 2006, and will do the same for the separate financial statements of the Parent Company Cairo Communication SpA, starting with the annual financial statements for the current financial year, 2006-2007.

The quarterly financial statements at 30 June 2007 were prepared in accordance with international accounting standards

Consolidated income statements were prepared for the 3rd quarter and first nine months of the current 2006/2007 financial year. Comparative data for the corresponding periods of the 2005/2006 financial years is included.

Consolidated balance sheet and statement of change in the financial position are compared to consolidated balance sheet data at 30 September 2006.

The quarterly financial statements for the Parent Company Cairo Communication SpA at 30 June 2007 were also prepared in accordance with international accounting standards. The following information was presented in the Appendix to the quarterly financial statements at 31 December 2006 "Application and effects of IAS/IFRS on Parent Company financial statements".

- The information required under Consob statement No. 14990 of 14 April 2005 which refers to the reconciliation statement of net equity at 1 October 2005 and at 30 September 2006 and the results of the financial year ended 30 September 2006, applying the Italian and international accounting standards respectively.
- A description of the primary differences between Italian accounting standards used previously and the IAS/IFRS;
- The optional exemptions allowed under IFRS No. 1 used by Cairo Communication S.p.A.;

Parent company income statements were prepared for the 3rd quarter and first nine months of the current 2006/2007 financial year. Comparative data for the corresponding periods of the 2005/2006 financial years is included and was restated to comply with IAS/IFRS standards.

Parent company balance sheet and statement of change in the financial position are compared to consolidated balance sheet data at 30 September 2006, which were restated in accordance with IAS/IFRS.

In the section "Reconciliation of net equity and the quarterly results at 31 March 2006" of the "Transition to the IAS/IFRS international accounting standards" appendix to these financial statements, a detailed account is included of the effects of the transition to IAS/IFRS international accounting standards on the Parent Company Balance Sheet at 30 June 2006 and Income Statement for the first nine months and 3rd quarter ended 30 June 2006.

In accordance with Art. 82 section 2 of the financial regulations, the methods of presenting the quarterly reports have not been changed on previous quarters. During this period, no changes have been made to the consolidation scope so it remains unchanged from that detailed in the financial statements at 30 September 2006.

The financial statements at 30 June 2007 have been prepared on a pre-tax basis.

For a better understanding of data provided, income tax calculations for the first nine months and 3rd quarter of the previous financial year are included, whereas quarterly results were prepared on a pre-tax basis.

2. Executive summary

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

In our publishing business, over the May 2006 – April 2007 twelve month period, "Settimanale Di Più", the second best-selling magazine in Italy, has enjoyed average ADS sales of 783,224 copies while average ADS distribution figures for "Di Più TV" and "Diva e Donna" reached 599,774 and 236,469 copies, respectively, thereby confirming their extraordinary success to date.

In our advertising business, quarterly sales of advertising time on the La 7 broadcaster grew 20% on last year to € 35.2 million (1.4% growth in the television advertising sales market during the quarter - source: AC Nielsen).

3. *Cairo Communication Group Consolidated Income Statement*

(€ thousands)	30 June 2007 (9 months)	30 June 2007 (Q3)	30 June 2006 (9 months)	30 June 2006 (Q3)
Sales	205,344	73,205	191,923	67,930
Advertising agency discount	(21,189)	(7,893)	(18,943)	(6,777)
Net operating revenues	184,155	65,312	172,980	61,153
Inventory movements	76	65	422	37
Other operating revenues	1,467	295	1,918	656
Operating revenues	**185,698**	**65,672**	**175,320**	**61,846**
Cost of sales	(152,388)	(52,284)	(148,376)	(52,232)
Personnel costs	(15,294)	(5,692)	(13,815)	(4,766)
Gross operating profit (EBITDA)	**18,016**	**7,696**	**13,129**	**4,848**
Depreciation and provision charges	(4,029)	(874)	(2,557)	(894)
Operating profit (EBIT)	**13,987**	**6,822**	**10,572**	**3,954**
Net finance income	2,273	818	1,714	598
Investment writedowns	-	-	-	-
Profit before tax	**16,260**	**7,640**	**12,286**	**4,552**
Income tax	(7,192)	(3,209)	(4,233)	(1,822)
Minority interests	(4)	(10)	11	14
Profit from continuing operations – Group share	**9,064**	**4,421**	**8,064**	**2,744**
Profit /(loss) from discontinued operations	129	558	(5,729)	(1,138)
- attributable to minority interests	-	-	1,378	(7)
Profit/(loss) from discontinued operations	**129**	**558**	**(4,351)**	**(1,145)**
Net profit	**9,193**	**4,979**	**3,713**	**1,599**

As the Diellesei subsidiary has gone into liquidation, the Group share of the financial results of the Diellesei SpA in liquidation subsidiary for the first nine months of the year and the 3rd quarter have been disclosed separately as “Profit/ (loss) from discontinued operations” as with the consolidated financial statements at 30 September 2006. The income statements for the first nine months of the year and the 3rd quarter of the 2005-2006 financial year have been restated in the same way. A reconciliation statement for the income statement first nine months of the year at 30 June 2006, reclassified in this way, is included in Appendix 1, including income tax calculation.

During the quarter, gross operating revenues for the Cairo Communication Group increased from € 68.6 million last year to € 73.5 million, comprising operating revenues of € 73.2 million and other revenue of € 0.3 million, an increase of 8% compared to the same period of the previous financial year.

Gross operating profit (EBITDA) increased 59% to € 7.7 million (€ 4.8 million for 2005-2006), operating profit (EBIT) rose by 72% to € 6.8 million (€ 4 million for 2005-2006) and the Group share of net profit, totalling € 5 million, rose by 211% (€ 1.6 million for 2005-2006).

During the first nine months of the year, gross operating revenues for the Cairo Communication Group increased from € 193.8 million last year to € 206.8 million, comprising operating revenues of € 205.3 million and other revenue of € 1.5 million, an increase of 7% compared to the same period of the previous financial year.

During the first nine months of the year, gross operating profit (EBITDA) increased 37% to € 18 million (€ 13.1 million for 2005-2006), operating profit (EBIT) rose by 33% to € 14 million (€ 10.6 million for 2005-2006) and the Group share of net profit, totalling € 9.2 million, rose by 147% (€ 3.7 million for 2005-2006).

Profits for the first nine months of the 2005-2006 financial year included, as a reduction of the price of paper, a tax credit of € 2.6 million against the cost of purchasing paper, in accordance with Law No. 350 of 24 December 2003. This tax credit cannot be applied to corporate income tax. This has led to various movements in the tax charge for the period on last year's figures.

The significant increase in amortisation and writedowns over the first nine months is mostly linked to the establishment of a provision of € 1.7 million for non-recurrent expenses, established as part of an assessment by the INPGI, which was announced during March 2007. The Company decided to establish the provision detailed above, in accordance with the terms fixed.

The financial results for the first nine months and 3rd quarter of the 2005-2006 financial year were negatively affected by the results of activities now discontinued, Diellesei SpA in liquidazione. This negative impact has been eliminated for the current financial year, as shown in the following table:

(€ thousands)	30 June 2007 (9 months)	30 June 2007 (Q3)	30 June 2006 (9 months)	30 June 2006 (Q3)
Sales	-	-	-	-
Inventory movements	-	-	-	-
Other operating revenues	1,543	1,012	76	58
Operating revenues	**1,543**	**1,012**	**76**	**58**
Cost of sales	(585)	(146)	(3,307)	(1,042)
Personnel costs	(403)	(33)	(2,447)	(553)
Gross operating profit (EBITDA)	**555**	**833**	**(5,678)**	**(1,537)**
Depreciation and provision charges	(313)	(217)	(2,717)	(57)
Operating profit (EBIT)	**242**	**616**	**(8,395)**	**(1,594)**
Net finance income	(39)	219	(296)	(102)
Profit before tax	**203**	**835**	**(8,691)**	**(1,696)**
Income tax	(74)	(277)	2,961	557
Minority interests	-	-	1,378	(7)
Profit/(loss) from discontinued operations – Group share	**129**	**558**	**(4,352)**	**(1,146)**

During the first nine months of this year, the liquidation of the Diellesei subsidiary continued, generating net operating costs of € 1.3 million, mostly relating to labour costs for the period prior to the liquidation, personnel costs for those employed in the liquidation process, legal consultants' fees and asset writedowns.

Revenue generated by Diellesei relates to the recognition of debt positions agreed as part of a settlement agreement.

Note that during the quarter, Diellesei signed an agreement with Unicredit Banca d'Impresa, to define its exposure and according to which the credit institution waived part of its loan (for around € 1 million). The balance on the loan will be payable on 31 December 2007. No additional interest will charged in relation to the extended due date.

The minority interest has been determined by taking account of the fact that the minority shareholder, UT Communications SpA has exhausted its contractual commitment relating to share capital increases and/or loss coverage.

4. Cairo Communication Group Consolidated Balance Sheet at 30 June 2007

(€ thousands)	30 June 2007	30 Sept. 2006
ASSETS		
Property, furniture and equipment	3,247	3,353
Intangible assets	9,268	9,544
Investments	5,963	5,995
Net current assets	(4,633)	(10,540)
TOTAL ASSETS	**13,845**	**8,352**
Non-current borrowings and provisions	6,645	8,574
Net financial assets	(75,232)	(92,395)
Shareholders' equity	82,434	92,658
Minority interests	(2)	(485)
TOTAL EQUITY AND LIABILITIES	**13,845**	**8,352**

The Ordinary General Meeting of Cairo Communication Group shareholders of 31 January 2007 decided to distribute a total of € 19.5 million in dividends, mostly from net financial assets, at € 2.50 per share, before withholding tax, with coupon no. 6 and a distribution date of 12 February 2007.

Investments refer primarily to 765,000 shares in Dmail Group SpA, equivalent to 10% of the company's share capital. The value of this investment has significantly increased since its purchase date, with a value at the date of approval of these financial statements of about € 12 per share, against a book value of € 7.60 per share.

5. Cairo Communication Group Consolidated Net Financial Position Statement at 30 June 2007

(€ thousands)	30 June 2007	30 Sept. 2006	Change
Cash and cash equivalents	59,714	97,872	(38,158)
Telepiù Escrow account	7,277	7,189	88
Fixed deposits	19,203	-	19,203
Short-term investments – other securities	161	161	-
Current bank overdrafts	(15)	(327)	312
Bank loans	(11,108)	(12,500)	1,392
Total	**75,232**	**92,395**	**(17,163)**

Net financial assets include:

- a current account registered in the name of both Cairo Communication SpA and Telepiù SpA (€ 7.3 million including accrued interest). This deposit was made as a result of a settlement agreement reached by the parties, as a guarantee on the Company's right to damages from Tele+ SpA. Cairo Communication has lodged the requisite funds in accordance with Tele+ accounts from 2004, awaiting the arbitrators' decision.
- fixed deposits, corresponding to:
  - collateral of € 12.8 million with Banca Intesa against a mortgage of € 16.8 million, for which contractual provision has been made, issued by a credit institute to the Telecom Italia Media publisher, in the interests of Cairo Communication
  - liquidity deposited in two escrow accounts, one of € 3.9 million, in favour of Unicredit Banca, and the other for € 2.6 million in favour of Banca Popolare di Milano, set up as part of two transactions which saw these two institutes write off a portion of the Diellesei debt, included in bank payables, and an interest-free respite in the terms of repayment of this debt;

Dividends of € 3.7 million were paid during the quarter to UT Belgium Holding SA, a subsidiary of UT Communications SpA, Cairo Communication's Parent Company.

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

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

(€ thousands)	**Three months to 30 June 2007**			**Three months to 30 June 2006**		
	Publishing	**Advertising**	**TOTAL**	**Publishing**	**Advertising**	**TOTAL**
TV advertising time sales	-	38,308	**38,308**	-	31,955	**31,955**
Print media advertising space sales	12,439	5,405	**17,844**	11,881	5,312	**17,193**
Stadium signs ad space sales	-	687	**687**	-	279	**279**
Internet advertising time sales	-	8	**8**	-	(2)	**(2)**
Magazine over-the-counter sales	15,549	-	**15,549**	17,698	-	**17,698**
Magazine subscription sales	819	-	**819**	830	-	**830**
Audiovisual and other sales	-	-	-	(6)	54	**48**
Books and catalogues	282	-	**282**	310	-	**310**
VAT relating to publications	(292)	-	**(292)**	(381)	-	**(381)**
Total sales	28,797	44,408	**73,205**	30,332	37,598	**67,930**
Other operating revenues	73	222	**295**	129	527	**656**
Total Gross Operating Revenues	28,870	44,630	**73,500**	30,461	38,125	**68,586**

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

Group advertising sales, inclusive of intra-Group sales of € 12.2 million, amount to € 56.8 million for the third quarter, up 14% on the same period of last year (€ 49.8 million inclusive of intra-Group sales of € 11.7 million), due to the growth in advertising time sales on the La 7 TV network and other specialty channels.

Sales from the publishing sector declined compared to the same period of the previous financial year, due to exceptional sales in the previous year and to lower communication expenditure in the quarter.

Analysis of 3rd Quarter Consolidated Income Statement Results by Business Segment:

(€ thousands)	Nine months to 30 June 2007			Nine months to 30 June 2006		
	Publishing	Advertising	TOTAL	Publishing	Advertising	TOTAL
TV advertising time sales	-	107,485	**107,485**	-	93,721	**93,721**
Print media advertising space sales	29,679	13,988	**43,667**	29,335	14,198	**43,533**
Stadium signs ad space sales	-	2,585	**2,585**	-	1,823	**1,823**
Internet advertising time sales		26	**26**	-	16	**16**
Magazine over-the-counter sales	48,558	-	**48,558**	50,234	-	**50,234**
Magazine subscription sales	2,527	-	**2,527**	2,523	-	**2,523**
Audiovisual and other sales		-	**-**	-	113	**113**
Books and catalogues	1,397	-	**1,397**	952	-	**952**
VAT relating to publications	(901)	-	**(901)**	(992)	-	**(992)**
Total sales	**81,260**	**124,084**	**205,344**	**82,052**	**109,871**	**191,923**
Other operating revenues	927	540	**1,467**	823	1,095	**1,918**
Total Gross Operating Revenues	82,187	124,624	**206,811**	82,875	110,966	**193,841**

For the first nine months of the financial year, Group advertising sales, inclusive of intra-Group sales of € 29.4 million, amounted to € 154 million, up 9.8% on the same period of last year (€ 140.2 million inclusive of intra-Group sales of € 29.2 million), due to the growth in advertising time sales on the La 7 TV network and other specialty channels.

Publishing sales for the first nine months of the year substantially confirmed the good performance achieved in the 2005/2006 financial year.

PUBLISHING BUSINESS

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

In the October 2006 – June 2007, the three weekly magazines "Settimanale DIPIU'", "DIPIU'TV" and "Diva e Donna" generated consolidated sales of € 71.2 million, thereby confirming their extraordinary success.

During this quarter, operations primarily focused on the consolidation of existing titles and the optimisation of production, editorial and distribution cost structures, with particular attention paid to the geographical spread of sales and the development of advertising sales.

The launch of the new monthly magazines sold with "Di Più TV" and the weekly magazine for women, "Diva e Donna", following the launch of four other titles, "For Men Magazine" and "Natural Style" in 2003, "Settimanale Di Più" in 2004 and "Di Più TV" in 2005, will allow for further streamlining of existing structures shared with Editoriale Giorgio Mondadori. During this period, EGM continued to focus its activities on the magazines “Bell’Italia”, “Bell’Europa”, “In Viaggio”, “Airone”, “Gardenia”, “Arte” and “Antiquariato”.

ADVERTISING BUSINESS

A) TELEVISION

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

Sales of advertising time on the La 7 broadcaster grew 20% on last year to € 35.2 million, (compared to a 1.4% increase in the Italian television advertising sales market over the quarter - source: AC Nielsen).

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

B) PRINT MEDIA DIVISION

Over the nine month period from October 2006 to June 2007, Cairo Communication SpA continued with its sale of advertising space for:

- “For Men Magazine”, “Natural Style”, “Settimanale Di Più”, “Di Più TV” and its monthly supplements “Di Più TV Cucina”, “Di Più TV Stellare” and “Di Più TV Giochi”, and “Diva e Donna”, published by Cairo Editore;
- “Bell’Italia”, “Bell’Europa”, “In Viaggio”, “Airone”, “Gardenia”, “Arte” and “Antiquariato”, published by Editoriale Giorgio Mondadori;

- "Prima Comunicazione".

Over the nine month period from October 2006 to June 2007, print media advertising sales totalled € 43.7 million, including € 29.6 million in intra-Group revenue, confirming the figures for the same period of the 2005-2006 financial year.

C) INTERNET DIVISION

During this financial year, development of the search engine Il Trovatore has continued, as it enjoyed high numbers of searches on the homepage and on pages belonging to third party clients, totalling 21 million, and recorded 350,000 hits during this period. Development activities have focussed on the search for sources of income complementary to those from advertising space sales, and the provision of technology services.

DIRECTORY DIVISION – CAIRO DIRECTORY

During the 3rd quarter, the liquidation of the Diellesei subsidiary continued, generating net operating costs of € 1.3 million in the first nine months of the year, mostly relating to labour costs for the period prior to the liquidation, personnel costs for those employed in the liquidation process, consultants' fees and asset writedowns.

During this period, important agreements were reached relating to the recognition of debt positions, generating revenue of € 1.2 million, gross of any tax effect.

Note that during the quarter, Diellesei signed an agreement with Unicredit Banca d'Impresa, to define its exposure and according to which the credit institution waived part of its loan (for around € 1 million). The balance on the loan will be payable on 31 December 2007. No additional interest will charged in relation to the extended due date.

At the date of preparation of these quarterly financial statements, the company has no employees. Seven of the company's ex employees have challenged their dismissal and sought mediation from the Regional Labour Authority, citing Art. 410 of the Italian Code of Civil Procedure.

The process of formalising agreements with former sales agents is ongoing, involving approximately 100 positions of the 150 which were current when the Company was put into liquidation.

7. Group investments

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

(€ thousands)	30 June 2007 (Q3)	30 June 2007 (9 months)	30 June 2006 (Q3)	30 June 2006 (9 months)

Purchases

TV ad time sales rights, computer software and brands	1	91	161	888
Current costs and down payments	0	0	(37)	84
Consolidation differences	0	0	0	0
Research	0	0	0	0
Other	0	0	0	0
Total investments in intangible assets	**1**	**91**	**124**	**972**
Land and buildings	0	0	0	0
Machinery	0	0	0	0
Other	47	223	28	287
Leasehold improvements	29	119	0	0
Total investments in property, furniture and equipment	**76**	**342**	**28**	**287**
Investments	0	0	0	0
Financial receivables from associates	0	0	0	0
Total investments in non-current financial assets	**0**	**0**	**0**	**0**
Total	**77**	**433**	**152**	**1,259**

8. CAIRO COMMUNICATION SPA – FINANCIAL RESULTS

Parent Company Income Statement

(€ thousands)	30 June 2007 (9 months)	30 June 2007 (Q3)	30 June 2006 (9 months)	30 June 2006 (Q3)
Sales	141,720	52,066	128,098	45,542
Advertising agency discounts	(15,588)	(5,537)	(13,458)	(4,539)
Other operating revenues	270	139	483	72
Operating revenues	**126,402**	**46,668**	**115,123**	**41,075**
Cost of sales	(118,434)	(43,938)	(107,747)	(38,569)
Personnel costs	(1,731)	(596)	(1,744)	(567)
Gross operating profit (EBITDA)	**6,237**	**2,134**	**5,632**	**1,939**
Amortisation, depreciation and provision charges	(760)	(230)	(1,034)	(336)
Operating profit (EBIT)	**5,477**	**1,904**	**4,598**	**1,603**
Net finance income	2,136	760	1,791	633
Investment writedowns	0	0	(8,296)	(1,200)
Profit before tax	**7,613**	**2,664**	**(1,907)**	**1,036**
Income tax	(2,903)	(980)	(2,479)	(873)
Net profit	**4,710**	**1,684**	**(4,386)**	**163**

An analysis of the effects on Company net equity and income of the application of the IAS/IFRS international accounting standards is included in Appendix II – "Transition to IAS/IFRS international accounting standards - Reconciliation of net equity and financial results of the Parent Company at 30 June 2006".

Cairo Communication SpA gross operating revenues for the first nine months of this financial year totalled € 141.7 million, up 10.6% on the same period of last year. The gross operating profit (EBITDA) totalled € 6.2 million, up from € 5.6 million in the previous financial year. The operating profit (EBIT) totalled about € 5.5 million, up from € 4.6 million last year.

Writedowns applied to investments during the first nine months of the previous financial year related to the investment in Diellesei in liquidazione SpA subsidiary, which was written down by € 3.8 thousand as the company went into liquidation from the date of the Shareholders' Meeting of 10 July 2006, and the provision of € 4.5 million in relation to losses incurred during the period by this subsidiary and its liquidation.

During the 3rd quarter of the current year, gross operating revenues totalled € 52.1 million, up 14.5% on the same period last year, mostly due to the increase in TV advertising time sales revenue from La 7. The gross operating profit (EBITDA) for the quarter totalled € 2.1 million, up from € 1.9 million in the previous financial year. The operating profit (EBIT) totalled about € 1.9 million, up from € 1.6 million last year.

9. Cairo Communication SpA Parent Company Balance Sheet

(€ thousands)	30 June 2007	30 Sept. 2006
Assets		
Property, furniture and equipment	256	323
Intangible assets	483	574
Investments	13,747	14,155
Net current assets	14,340	15,548
Total Assets	**28,826**	**30,600**
Non-current liabilities	8,037	9,687
Net financial assets	(70,083)	(84,700)
Borrowings from unconsolidated subsidiary	4,885	4,885
Shareholders' equity	85,987	100,728
Total Equity and Liabilities	**28,826**	**30,600**

The decrease in non-current liabilities mostly relates to the utilisation of the investment writedown provision to cover payments made by the Diellesei in liquidazione SpA subsidiary.
As discussed above, the meeting of Cairo Communication Group shareholders of 31 January 2007 decided to distribute a total of € 19.5 million in dividends, mostly from net financial assets, at € 2.50 per share, before withholding tax, with coupon no. 6 and a distribution date of 12 February 2007.

10. Cairo Communication SpA - Parent Company Statement of Net Financial Position

Cairo Communication S.p.A.	30 June 2007	30 Sept. 2006	Change
Cash and cash equivalents	43,442	71,350	(27,908)
Telepiù escrow account	7,277	7,189	88
Fixed deposits	19,203	0	19,203
Insurance financial products	0	6,000	(6,000)
Marketable securities	161	161	0
Bank loans	0	0	0
Net financial assets	**70,083**	**84,700**	**(14,617)**
Borrowings from unconsolidated subsidiary	(4,885)	(4,885)	0
Net financial position	**65,198**	**79,815**	**(14,617)**

The net financial position includes:

- Liquidity deposited in a current account held jointly with Telepiù SpA (€ 7,277 thousand, net of accrued interest), made as a result of a decision made in the ongoing arbitration between Cairo Communication and Telepiù SpA, on the basis of which, in agreement with Telepiù SpA, Cairo Communication lodged the requisite funds in accordance with Tele+ accounts from 2004, of which Cairo Communication requested a precautionary seizure as a guarantee on the Company's right to damages from Tele+ SpA, carried out as part of the ongoing arbitration with this company.
- Other deposits, which can be analysed as follows:
  - collateral of € 12.8 million with Banca Intesa against a mortgage of € 16 million, for which contractual provision has been made, issued by a credit institute to the Telecom Italia Media publisher, in the interests of Cairo Communication
  - liquidity deposited in two escrow accounts, one of € 3.9 million, in favour of Unicredit Banca, and the other for € 2.6 million in favour of Banca Popolare di Milano, set up as part of two transactions which saw these two institutes write off a portion of the Diellesei debt, included in bank payables, and an interest-free respite in the terms of repayment of this debt;

11 Outlook

Cairo Communication Group will focus on developing its core businesses during the 2006-2007 financial year. It will focus on the development of its Publishing business operated by its Cairo Editore SpA and Editoriale Giorgio Mondadori (EGM), Cairo Directory and Cairo Publishing subsidiaries, as well on its Advertising business, in particular the sale of advertising space in its own magazines, and the sale of advertising time on the La 7 TV network and selected analogue and digital pay TV specialty channels (Cartoon Network, Boomerang, Bloomberg and CNN)

In the Group Publishing business, the latest distribution figures for "Settimanale Di Più", the second best-selling magazine in Italy, "Di Più TV" and "Diva e Donna" confirm their extraordinary success to date.

During this first nine months, operations have focussed on the consolidation of current titles, particularly those launched over the last four years, "Settimanale Di Più", "Diva e Donna", "Di Più TV", "Di Più TV Cucina", "Di Più TV Stellare", "Di Più TV Giochi", "For Men Magazine" and "Natural Style", and the Group focus will remain the optimisation of production, distribution and editorial cost structures, with particular attention to the geographical spread of sales and the development of advertising sales.

Group Advertising business will continue to focus on the development of advertising time sales for third party media clients, being La 7 and the specialty channels.

In particular, the sale of advertising time on La 7 for the July – August 2007 period confirmed the growth trend recorded previously, generating sales of € 11.1 million, an increase of 35% on the same period last year.

We are currently carrying out studies to assess the editorial and economic feasibility of projects to launch new initiatives in the next financial year.

Chairman of the Board of Directors

Urbano Cairo

Appendix 1 – Statement of reconciliation of consolidated income statement at 30 June 2006

(€ thousands)	30 June 2006 (9 months)	Income tax	Reclassification of discontinued operations	30 June 2006 (9 months)
Sales	191,923	-	-	191,923
Advertising agency discount	(18,943)	-	-	(18,943)
Net operating revenues	**172,980**	**-**	**-**	**172,980**
Inventory movements	422	-	-	422
Other operating revenues	1,994	-	(76)	1,918
Operating revenues	**175,397**	-	(76)	**175,320**
Cost of sales	(151,682)	-	3,307	(148,376)
Personnel costs	(16,261)	-	2,447	(13,815)
Gross operating profit (EBITDA)	**7,453**	**-**	**5,677**	**13,129**
Depreciation and provision charges	(5,275)	-	2,717	(2,557)
Operating profit (EBIT)	**2,179**	-	**8,393**	**10,572**
Net finance income	1,418	-	296	1,714
Profit before tax	**3,597**	**-**	**8,690**	**12,286**
Income tax		(1,273)	(2,961)	(4,233)
Minority interests	2,076	(687)	(1,378)	11
Profit from continuing operations – Group share	**5,673**	**(1,960)**	**4,351**	**8,064**
Profit /(loss) from discontinued operations	**-**	-	(5,729)	(5,729)
- attributable to minority interests	-	-	1,378	1,378
Profit/(loss) from discontinued operations	-	**-**	**(4,351)**	**(4,351)**
Net profit	**5,673**	**(1,960)**	**0**	**3,713**

CAIRO COMMUNICATION

Transition to International Accounting Standards (IAS/IFRS) of Parent Company financial statements

Reconciliation of net equity and net profit for the half year ended 30 June 2006

The separate Parent Company financial statements included in the quarterly report at 30 June 2007 were prepared in accordance with the IAS/IFRS international accounting standards.

In the Appendix "Application of IAS/IFRS to Parent Company financial statements and related effects" for the quarter ended 31 December 2006, the following information was provided:

- the disclosures required by the Consob press release no. 14990 of 14 April 2005 regarding the reconciliation of net equity at 1 October 2005 and at 30 September 2006 and the profit for the year ended 30 September 2006 calculated using Italian accounting standards and the IAS/IFRS international accounting standards;
- a description of the primary differences between the Italian accounting principles used previously and the IAS/IFRS international accounting standards
- the accounting treatment selected by the Company from the accounting options provided by IAS/IFRS,
- the optional IFRS 1 exemptions used by the Company;
- A summary of the most significant accounting principles applied;

Reconciliation of net equity and net profit for the nine months ended 30 June 2006

The reconciliation of Company net equity and net profit at 30 June 2006, calculated in application of Italian accounting principles and IAS/IFRS international accounting standards can be analysed as follows:

	1 Oct. 2005	**Dividend distributed**	**Other equity movements**	**Group profit/(loss)**	**30 June 2006**
Total equity in accordance with Italian accounting principles	**138,175**	**(23,371)**	**0**	**(4,795)**	**110,009**
IAS/IFRS movements:					
- Reversal of incorporation and listing costs	(3)	0	0	1	(2)
- Reclassification of treasury shares	(86)	0	(2,100)	0	(2,186)
- Different treatment of cost of advertising revenue	(2,941)	0	0	650	(2,291)
Related tax effect	1,097	0	0	(242)	855
Total IAS/IFRS movements	(1,933)	0	(2,100)	409	(3,624)
Net equity under IAS/IFRS international accounting standards	**136,242**	**(23,371)**	**(2,100)**	**(4,386)**	**106,385**

With regard to the application of the valuation principles in IAS No. 19 to the provision for retirement benefits and staff severance provision, (projected unit credit method), the actuarial value at 30 September 2005 has been obtained, which shows no significant effect on the items involved, net equity, or the financial results for the year. As a result, the figures obtained using Italian accounting principles have not been adjusted. The lack of significant variation in employee numbers and the stability of actuarial variables submitted for the calculation of liability with the application of valuation criteria outlined in IAS 19 relating to employee benefits confirms the conclusions reached previously at the end of the conversion phase relating to liabilities at 30 September 2005, and therefore brings to bear no significant impact. As a result, the figures obtained using Italian accounting principles have not been adjusted.

Notes to the reconciliation of net equity at 1 October 2005 and at 30 June 2006 and the profit for the nine months ended 30 June 2006

Intangible assets:

In accordance with IAS/IFRS, adjustments have been made to the value of intangible assets relating to incorporation and listing costs. As a result, the reconciliation of net equity at 1 October 2005 and at 30 June 2006 shows a decrease in intangible assets respectively of € 3 thousand and € 2 thousand as well as a reduction of the amortisation of the period of € 1 thousand.

Treasury shares:

Treasury shares have been reclassified as a reduction of net equity. Dealing in treasury shares brings to bear no economic effect, either income or expense, rather it constitutes a variation in consolidated net equity.

As a result, the reconciliation of net equity at 1 October 2005 and at 30 June 2006, and net profit for the nine months ended 30 June 2006, determined using Italian accounting principles, and IAS/IFRS respectively, show the following:

At 1 October 2005: A decrease in net equity of € 86 thousand being the reclassification of treasury shares as a reduction in net equity;

At 30 June 2006: A decrease in net equity of € 2,100 thousand, corresponding to the price paid for treasury shares purchased during the period. As a result, the value of treasury shares at 30 June 2006, restated as a reduction in net equity, is equivalent to € 2,186 thousand.

Advertising sales:

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

Thus, the reconciliation of net equity at 1 October 2005 and 30 June 2006, as well as the profit for the nine months ended 30 June 2006, when restated in accordance with the IAS/IFRS international accounting standards, shows the following:

At 1 October 2005: An increase in other current payables of € 2,941 thousand to recognise the share of costs of advertising revenue, determined spreading the cost evenly across the contract's duration.
At 30 June 2006: A € 650 thousand decrease in the cost of sales and, thus, an increase in other current payables at 30 June 2006 of € 2,291 thousand.

Of note, in view of the reconciliation of the net equity and the quarterly financial results at 31 March 2006, prepared in accordance with Italian accounting standards, and these same results restated in accordance with the IAS/IFRS international accounting standards shown in the appendix of the quarterly report at 31 March 2007 "Transition to the IAS/IFRS international accounting standards to the Parent Company financial statements at 31 March 2006" the reconciliation of the net equity and the financial results at 30 June 2006 can be analysed as follows:

	1 April 2006	Dividend distributed	Other equity movements	Group profit/(loss)	30 June 2006
Total equity in accordance with Italian accounting principles	**109,988**	**0**	**0**	**21**	**110,009**
IAS/IFRS movements:					
- Reversal of incorporation and listing costs	(3)	0	0	1	(2)
- Reclassification of treasury shares	(2,186)	0	0	0	(2,186)
- Different treatment of cost of advertising revenue	(2,515)	0	0	224	(2,291)
Related tax effect	938	0	0	(84)	855
Total IAS/IFRS movements	(3,766)	0	0	141	(3,624)
Net equity under IAS/IFRS international accounting standards	**106,222**	**0**	**0**	**162**	**106,385**

Reconciliation of consolidated income statement for the nine months ended 30 June 2006

	Previous accounting principles	**IAS restatement**	**IAS reclassification**	**IAS/IFRS**
Income statement				
Net sales and services	128,098	0	0	128,098
Agency discounts	(13,458)	0	0	(13,458)
Other operating revenues	694	0	(211)	483
Operating revenues	**115,334**	**0**	**(211)**	**115,123**
Cost of sales	(108,056)	650	(341)	(107,747)
Personnel costs	(1,744)	0	0	(1,744)
Gross operating profit (EBITDA)	**5,534**	**650**	**(552)**	**5,632**
Amortisation, depreciation, provisions and writedowns	(1,587)	1	552	(1,034)
Operating profit (EBIT)	**3,947**	**651**	**0**	**4,598**
Net finance income	1,791	0	0	1,791
Investment loss	(8,296)	0		(8,296)
Loss before tax	**(2,558)**	**651**	**0**	**(1,907)**
Income tax	(2,237)	(242)	0	(2,479)
Net loss	**(4,795)**	**409**	**0**	**(4,386)**

Analysis of the effect of the transition to IAS/IFRS international accounting standards on the Income Statement for first nine months of the year ended 2006/2007.

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

Reclassification: This refers to the reclassification of the rebilling of the cost of sales.

<u>*Cost of sales*</u>

Restatement: As detailed above, this refers to the reclassification of the differing treatment of the cost of advertising revenue on the La 7 broadcaster.

Reclassification: This refers to the reclassification of revenues from the rebilling of the cost of sales (€ 211 thousand) and the reclassification (€ 552 thousand) of costs relating to the once-off entrance fee paid in January 2003 to La 7 Televisioni S.p.A. which under Italian accounting principles was classified as "Amortisation".

<u>*Amortisation, depreciation, provisions and writedowns*</u>

<u>*Reclassification:*</u> This includes the reclassification (€ 368 thousand) of costs relating to a once off amount paid during January 2003 to La 7 Televisioni SpA, which was recorded under amortisation in accordance with Italian accounting standards".

Analysis of the effect of the transition to IAS/IFRS international accounting standards on the Income Statement for the quarter ended 30 June 2006.

	Previous accounting principles	**IAS restatement**	**IAS reclassification**	**IAS/IFRS**
Income statement				
Net sales and services	45,542	0	0	45,542
Agency discounts	(4,539)	0	0	(4,539)
Other operating revenues	171	0	(99)	72
Operating revenues	**41,174**	**0**	**(99)**	**41,075**
Cost of sales	(38,708)	224	(85)	(38,569)
Personnel costs	(567)	0	0	(567)
Gross operating profit (EBITDA)	**1,899**	**224**	**(185)**	**1,938**
Amortisation, depreciation, provisions and writedowns	(521)	1	184	(336)
Operating profit (EBIT)	**1,378**	**225**	**0**	**1,603**
Net finance income	634	0	0	634
Investment loss	(1,200)	0		(1,200)
Profit before tax	**812**	**225**	**0**	**1,037**
Income tax	(791)	(84)	0	(875)
Net Profit	**21**	**141**	**0**	**162**

Analysis of the effect of the transition to IAS/IFRS international accounting standards on the Income Statement for the quarter ended 30 June 2006.

Other operating revenues

Reclassification: This refers to the reclassification of the rebilling of the cost of sales.

Cost of sales

Restatement: As detailed above, this refers to the reclassification of the differing treatment of the cost of advertising revenue on the La 7 broadcaster.

Reclassification: This refers to the reclassification of revenues from the rebilling of the cost of sales (€ 99 thousand) and the reclassification (€ 184 thousand) of costs relating to the once-off entrance fee paid in January 2003 to La 7 Televisioni S.p.A. which under Italian accounting principles was classified as “Amortisation”.

Amortisation, depreciation, provisions and writedowns

Reclassification: This includes the reclassification (€ 184 thousand) of costs relating to a once off amount paid during January 2003 to La 7 Televisioni SpA, which was recorded under amortisation in accordance with Italian accounting standards.

Chairman of the Board of Directors

Urbano R. Cairo