Half-Year Financial Report at 30 June 2014

Cairo Communication S.p.A.
Head Office
Via Tucidide 56, Milan
Share capital Euro 4,073,856.80

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

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Governance

Board of Directors

Urbano Cairo*	Chairman
Uberto Fornara	CEO
Laura Maria Cairo	Director
Roberto Cairo	Director
Marco Janni	Director
Antonio Magnocavallo	Director
Stefania Petruccioli	Director
Marco Pompignoli	Director
Roberto Rezzonico	Director
Mauro Sala	Director

Control and Risk Committee

Roberto Rezzonico	Director
Mauro Sala	Director
Antonio Magnocavallo	Director

Remuneration Committee

Antonio Magnocavallo	Director
Roberto Rezzonico	Director
Stefania.Petruccioli	Director

Related Party Committee

Marco Janni	Director
Mauro Sala	Director
Stefania Petruccioli	Director

Board of Statutory Auditors

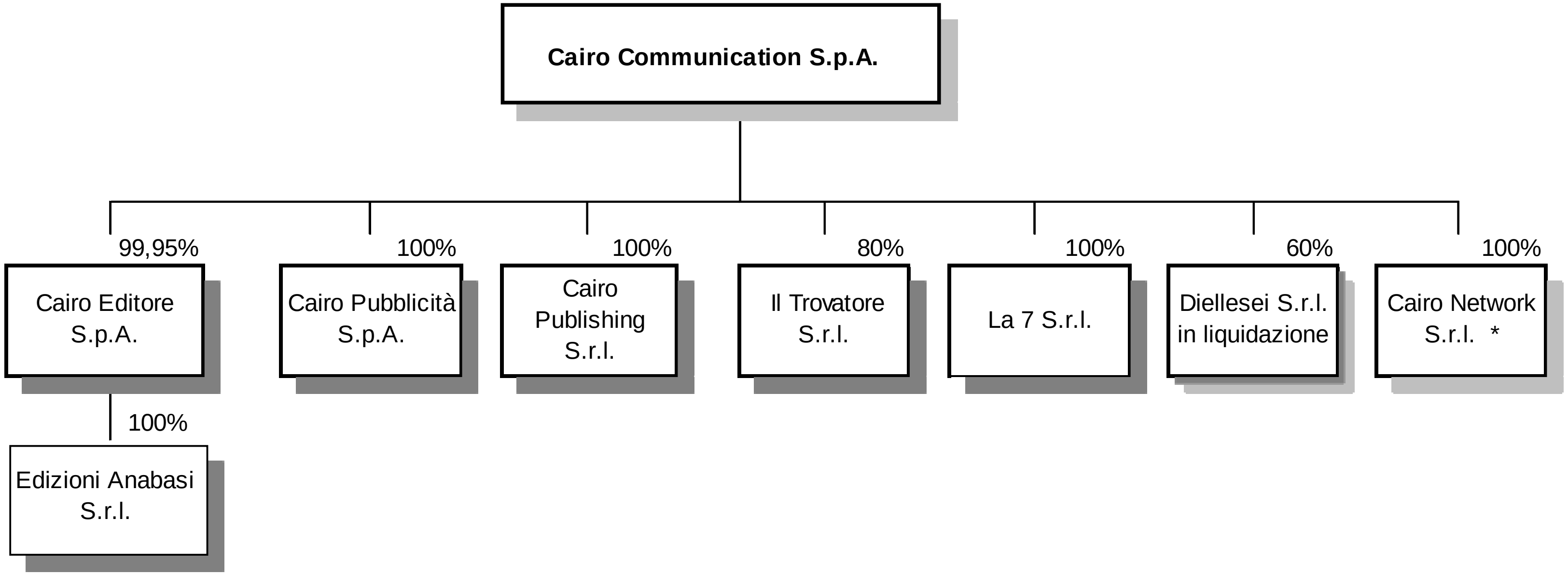
Marco Moroni	Chairman
Marco Giuliani	Standing auditor
Maria Pia Maspes	Standing auditor
Emilio Fano	Alternate auditor
Enrico Tamborini	Alternate auditor

Audit Firm

KPMG S.p.A.

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

The Group at 30 June 2014



* Effective 1 April 2014, Cairo Sport S.r.l. changed its name into Cairo Network S.r.l.

Interim management report at 30 June 2014

In 1H14, the Cairo Communication Group, which started operations in the TV publishing field in 2013 following the acquisition of La7, with the upstream integration of its concessionaire business for the sale of advertising space, diversifying its publishing activities previously focused on magazines, continued to operate as a:

- publisher of magazines and books (Cairo Editore/Editoriale Giorgio Mondadori and Cairo Publishing);
- multimedia advertising broker (Cairo Pubblicità) for the sale of advertising space on TV, in print media, on the Internet and in stadiums;
- TV (La7, La7d) and Internet (La7.it, La7.tv, TG.La7.it) publisher.

In 1H14, the general economic and financial context, marked by a high degree of uncertainty, continued to report negative effects. To date, there remains uncertainty over the period required for a return to normal market conditions.

Based on AC Nielsen figures, in 1H14 advertising investments in Italy amounted to approximately Euro 3.3 billion, down 2.4% versus the same period last year.

The analysis by media shows that in 1H14:

- the magazine advertising market dropped by 11% versus 2013, when in 1H13 it had lost 24.3% versus 2012,
- the TV advertising market grew by 1.3% versus 2013, when in 1H13 it had shed 16.4% versus 2012.

The uncertainty factors in the short-medium economic term also hit magazine sales figures.

Despite this backdrop, in 1H14 the Cairo Communication Group:

- strengthened the results of the cost rationalization measures in the TV publishing segment (La7) implemented during the eight months of activity in 2013, and continued to pursue a turnaround, succeeding in achieving also in 1H14 a positive gross operating profit (EBITDA) of Euro 4.9 million versus the gross operating loss of Euro 28.7 million of La7 in 1H13;
- strengthened the results of “F”, “Settimanale Nuovo” and “Settimanale Giallo”, confirmed the high circulation levels of the other publications, and worked on improving the levels of efficiency reached in containing costs in the magazine publishing segment (production, publishing and distribution);
- kept advertising revenue levels high, despite the general market trend;

- achieved highly positive results in its traditional segments (magazine publishing and advertising), despite the general economic and financial context and relevant market trend;
- took part with the subsidiary Cairo Network in the tender procedure opened by the Ministry of Economic Development for the assignment of rights to use TV frequencies for digital terrestrial broadcasting systems, submitting its binding bid and winning the rights to use a lot of frequencies ("Mux") for a period of 20 years.

To provide a better understanding of the figures for comparative purposes, it should be noted that the 1H13 income statement included the results of La7 S.r.l., which was consolidated on 1 May 2013, with regard only to the May-June two-month period of 2013.

In 1H14, consolidated gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 16 million and Euro 14 million, growing by 27.6% and 27.5% versus the same results of current operations in 1H13 (Euro 12.5 million and Euro 11 million). Profit attributable to the owners of the parent came to approximately Euro 14.5 million (up by approximately 71.3% versus the result from current operations in 1H13 (Euro 8.5 million). Profit in 1H13 (Euro 63.6 million) had benefited from the recognition in the income statement of “non-recurring income from the acquisition of La7”, amounting to Euro 57.1 million.

Specifically, in 1H14:

- in the **TV publishing segment (La7)**, the Group continued to implement its own plan to restructure La7, with the aim of achieving a turnaround. Gross operating profit (EBITDA) and operating profit (EBIT) came to approximately Euro 4.9 million and Euro 4 million, while La7 operations did not absorb cash (positive net financial position of Euro 121 million at 30 June 2014 versus Euro 115.8 million at 31 December 2013). Operating profit (EBIT) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 12.4 million, due to the write-down of tangible and intangible assets made in the purchase price allocation of the investment. Net of these effects, it would have shown a negative figure of approximately Euro 8.4 million. In 1H13 - when La7 had not been included yet for the entire period in the scope of consolidation of the Cairo Communication Group - gross operating loss had amounted to approximately Euro 28.7 million, versus gross operating profit of Euro 4.9 million in 1H14.

  In 1H14, La7’s average all-day share was 3.60% and 4.24% in prime time (from 8:30 PM to 11:30 PM), with a high-quality target audience. La7d’s share grew to 0.49%. The results of the channel's news and discussion programmes - such as the 8 PM newscast (6.3%), "Otto e mezzo" (5.8%), "Piazza Pulita" (5%), "Crozza nel Paese delle Meraviglie" (9.2%) "Servizio Pubblico" (8.2%), "Anno Uno" (7.4%) "Le invasioni Barbariche" (4.2%), "Coffee Break" (5.5%), "Omnibus" (4.4%), "La Gabbia" (3.75%), "L'aria che tira" (6.3%) and "Bersaglio Mobile" (5.8%) – were highly positive;

- in the **magazine publishing segment**, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 6.3 million and Euro 5.7 million (Euro 4.6 million and Euro 4.1 million in 1H13). The half-year period confirmed the excellent circulation results, with revenue at Euro 34.8 million. Regarding weeklies, with about 1.8 million average copies sold in the January-May five-month period of 2014, the Group retains its position as the leading publisher in copies of weeklies sold at newsstands, with an over 25% market share;
- in the **advertising segment**, gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 4.8 million and Euro 4.2 million (Euro 7.5 million and Euro 6.9 million in 1H13). In 1H14, advertising sales on La7 and La7d, amounting to Euro 82.4 million, basically confirmed the 1H13 result (Euro 82.6 million). In 2Q14, advertising sales on Group publications, totaling Euro 8.7 million, grew by 1% versus 2Q13, reporting a strong reversal versus the trend seen over the past few years.

On 12 April 2014, the subsidiary Cairo Network S.r.l. (former Cairo Sport S.r.l.) applied for admission to bid in the auction opened by the Ministry of Economic Development for the awarding of the so-called L3 Lot, put up for tender with a starting price of Euro 31.6 million. This lot includes the granting of rights to use - for a period of 20 years - the 2-SFN multiplex on channels 25 and 59 ("Mux"). The L3 Lot frequencies have an estimated nominal coverage of 96.6% of the population. On 15 May 2014, the Ministry of Economic Development announced the admission of Cairo Network to the tender. On 13 June 2014, the Company submitted its binding bid and won the rights. The award was announced on 26 June 2014 and the Ministry then issued the rights of use on 31 July 2014.

With the acquisition of the Mux, the Group will have at its autonomous disposal a broadcasting capacity of 22.4 Mbps versus the current 7.2 Mbps leased, which can be used to broadcast the current La7 and La7d channels from 1 January 2017, to broadcast new channels if the Company were to launch any, or even lease them to third parties as early as 2016.

Cairo Communication Group – Consolidated figures

The main **consolidated income statement** figures in 1H14 can be compared with the figures in 1H13:

(€ thousand)	30/06/2014 (Half-year)			30/06/2013 (Half-year)		
	Current operations	**Non-recurring items**	**Total**	**Current operations**	**Non-recurring items**	**Total**
Gross operating revenue	137,194	-	137,194	140,549	-	140,549
Advertising agency discounts	(13,829)	-	(13,829)	(14,534)	-	(14,534)
Net operating revenue	**123,365**	**-**	**123,365**	**126,015**	**-**	**126,015**
Change in inventory	(35)	-	(35)	(77)	-	(77)
Other revenue and income	5,042	-	5,042	2,896	-	2,896
Total revenue	**128,372**	**-**	**128,372**	**128,834**	**-**	**128,834**
Production cost	(81,353)	-	(81,353)	(97,271)	(1,917)	(99,188)
Personnel expense	(31,036)	-	(31,036)	(19,034)	-	(19,034)
Gross operating profit (EBITDA)	**15,983**	**-**	**15,983**	**12,529**	**(1,917)**	**10,612**
Amortization, depreciation, provisions and impairment losses	(2,025)	-	(2,025)	(1,578)	-	(1,578)
Operating profit (EBIT)	**13,958**	**-**	**13,958**	**10,951**	**(1,917)**	**9,034**
Net financial income	1,207	-	1,207	1,380	-	1,380
Income / (loss) on investments	(1)	-	(1)	563	-	563
Non-recurring income from the acquisition of La7 S.r.l.	-	-	-	-	57,066	57,066
Pre-tax profit	**15,164**	**-**	**15,164**	**12,894**	**55,149**	**68,043**
Income tax	(651)	-	(651)	(4,429)	-	(4,429)
Non-controlling interests	(8)	-	(8)	-	-	-
Profit from continuing operations attributable to the owners of the parent	**14,505**	**-**	**14,505**	**8,465**	**55,149**	**63,614**
Profit/(loss) from discontinued operations	-	-	-	-	-	-
Profit attributable to the owners of the parent	**14,505**	**-**	**14,505**	**8,465**	**55,149**	**63,614**

To provide a better understanding of the figures for comparative purposes, it should be noted that:

- the 1H13 income statement included the results of La7 S.r.l., which was consolidated on 1 May 2013, with regard only to the May-June two-month period of 2013;
- the 1H13 profit had benefited from the “non-recurring income from the acquisition of La7”; during the second half of 2013, in light of further information available, this income, which had been initially recognized in the interim half-year report at 30 June 2013 for an amount of Euro 54.7 million, was retrospectively adjusted to Euro 57.1 million, as shown in the statements in this Report.

In 1H14, consolidated gross revenue came to Euro 142.2 million, basically in line with 1H13 (Euro 143.4 million). The consolidation of La7 S.r.l. for the entire six months (with respect to the May-June two-month period of 2013 included in the same period last year) brought no significant change to revenue, since over 90% of La7 S.r.l. revenue comes from advertising sales generated by Cairo Communication under the advertising concession contract in effect before the acquisition.

Looking at current operations, consolidated gross operating profit (EBITDA) and operating profit (EBIT), amounting to approximately Euro 16 million and Euro 14 million, grew by 27.6% and 27.5% versus the same results of current operations in IH13 (Euro 12.5 million and Euro 11 million). Consolidated profit, amounting to approximately Euro 14.5 million, grew by approximately 71.3% versus the current operations in 1H13 (Euro 8.5 million). In 1H13, profit (Euro 63.6 million) included Euro 55.1 million, that is, non-recurring income and charges from the acquisition of La7. Specifically, "non-recurring income from the acquisition of La7 S.r.l.", amounting to Euro 57.1 million, referred to the difference between the fair value of assets acquired and liabilities assumed at the date of acquisition and the purchase price paid, given the financial situation of La7 at the date of acquisition.

As mentioned, in 1H14, gross operating profit (EBITDA) and operating profit (EBIT) from the TV publishing segment (La7) came to approximately Euro 4.9 million and Euro 4 million. Operating profit (EBIT) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 12.4 million, due to the write-down of tangible and intangible assets made in the purchase price allocation of the investment. Net of these effects, it would have shown a negative figure of approximately Euro 8.4 million.

In 1H13, the income statement included the results of La7, specifically the May-June two-month period of 2013, when gross operating profit (EBITDA) and operating profit (EBIT) from the TV publishing segment (La7) had come to approximately Euro 0.4 million and a negative Euro 0.03 million. These results had benefited from lower amortization and depreciation of Euro 4.2 million, due to write-downs of tangible and intangible assets made in the purchase price allocation. Net of these effects, the operating loss of La7 S.r.l. in the May-June two-month period of 2013 would have come to Euro 4.2 million.

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

(€ thousand)	**30/06/2014 (Half year)**	**30/06/2013 (Half year)**
Consolidated statement of comprehensive income		
Profit attributable to the owners of the parent	**14,505**	**63,614**
Other reclassifiable items of the comprehensive income statement		
Profit on measurement of available-for-sale financial assets	-	156
Other non-reclassifiable items of the comprehensive income statement		
Actuarial profit (loss) from defined benefit plans	(695)	77
Tax effect	191	(21)
Total comprehensive income	**14,001**	**63,826**

The Group's performance can be read better by analyzing the 1H14 results by **main business segment** (magazine publishing, advertising, TV publishing (La7) and Il Trovatore) versus those of 1H13:

2014 (Half year) (€ thousands)	**Magazine publishing**	**Advertising**	**TV publishing La7**		**Trovato-re**	**Unallocated operations**	**Intra-group**	**Total**
			Current operations	**Non-recurring items**				
Gross operating revenue	46,543	96,738	59,361	-	431	-	(65,879)	137,194
Advertising agency discounts	-	(13,829)	-	-	-	-	-	(13,829)
Net operating revenue	**46,543**	**82,909**	**59,361**	**-**	**431**	**-**	**(65,879)**	**123,365**
Change in inventory	(35)	-	-	-	-	-	-	(35)
Other income	864	481	3,697	-	-	-	-	5,042
Total revenue	**47,372**	**83,390**	**63,058**	**-**	**431**	**-**	**(65,879)**	**128,372**
Production cost	(31,437)	(75,287)	(40,155)	-	(353)	-	65,879	(81,353)
Personnel expense	(9,667)	(3,316)	(18,035)	-	(18)	-		(31,036)
Gross operating profit (EBITDA)	**6,268**	**4,787**	**4,868**	**-**	**60**	**-**	**-**	**15,983**
Amortization, depreciation, provisions and impairment losses	(542)	(606)	(877)	-	-	-	-	(2,025)
Operating profit (EBIT)	**5,726**	**4,181**	**3,991**	**-**	**60**	**-**	**-**	**13,983**
Income / (loss) on investments	-	(1)	-	-	-	-	-	(1)
Net financial income	17	325	865	-	-	-	-	1,207
Non-recurring income from acquisition of La7 S.r.l.	-	-	-	-	-	-	-	-
Pre-tax profit	**5,743**	**4,505**	**4,856**	**-**	**60**	**-**	**-**	**15,164**
Income tax	(2,063)	(1,537)	2,970	-	(21)	-	-	(651)
Non-controlling interests					(8)	-	-	(8)
Profit from continuing operations attributable to the owners of the parent	**3,680**	**2,968**	**7,826**	**-**	**31**	**-**	**-**	**14,505**
Profit / (loss) from discontinued operations	-	-	-	-	-	-	-	-
Profit	**3,680**	**2,968**	**7,826**	**-**	**31**	**-**	**-**	**14,505**

2013 (Half year) (€ thousands)	**Magazine publishing**	**Advertising**	**TV publishing La7 (*)** **Current operation**	**Non-recurring items**	**Trovato-re**	**Unallocated operations**	**Intra-group**	**Total**
Gross operating revenue	48,038	101,224	22,228	-	184	-	(31,125)	140,549
Advertising agency discounts	-	(14,534)	-	-	-	-		(14,534)
Net operating revenue	**48,038**	**86,690**	**22,228**	**-**	**184**	**-**	**(31,125)**	**126,015**
Change in inventory	(77)	-	-	-	-	-	-	(77)
Other income	1,467	3,752	281	-	-	-	(2,604)	2,896
Total revenue	**49,428**	**90,442**	**22,509**	**-**	**184**	**-**	**(33,729)**	**128,834**
Production cost	(35,076)	(80,060)	(15,698)	(1,917)	(166)	-	33,729	(99,188)
Personnel expense	(9,718)	(2,883)	(6,416)	-	(17)	-	-	(19,034)
Gross operating profit (EBITDA)	**4,634**	**7,499**	**395**	**(1,917)**	**1**	**-**	**-**	**10,612**
Amortization, depreciation, provisions and impairment losses	(569)	(585)	(424)	-	-	-	-	(1,578)
Operating profit (EBIT)	**4,065**	**6,914**	**(29)**	**(1,917)**	**1**	**-**	**-**	**9,034**
Income / (loss) on investments	-	563	-	-	-	-	-	563
Net financial income	20	830	531		(1)	-	-	1,380
Non-recurring income from acquisition of La7 S.r.l.	-	-	-	57,066	-	-	-	57,066
Pre-tax profit	**4,085**	**8,307**	**502**	**55,149**	**-**	**-**	**-**	**68,043**
Income tax	(1,589)	(2,838)	-	-	(2)	-	-	(4,429)
Non-controlling interests	-	-	-	-	-	-	-	-
Profit from continuing operations attributable to the owners of the parent	**2,496**	**5,469**	**502**	**55,149**	**(2)**	**-**	**-**	**63,614**
Profit / (loss) from discontinued operations	-	-	-	-	-	-	-	-
Profit	**2,496**	**5,469**	**502**	**55,149**	**(2)**	**-**	**-**	**63,614**

(*) The amounts shown for the "TV publishing" segment refer to the two-month period from 1 May 2013 to 30 June 2013

The breakdown of **gross operating revenue** in 1H14, split up by main business segment (magazine publishing, advertising, TV publishing (La7) and Il Trovatore) can be analyzed as follows by comparing the amounts with 1H13:

Gross revenue (€ thousands)	**Half year at 30/06/2014 (six months)**					
	Magazine publishing	**Advertising**	**TV publishing (La7)**	**Trovatore**	**Intra-group eliminations**	**Total**
Magazine over-the-counter sales	34,849	-	-	-	-	34,849
Print media advertising	10,517	14,013	-	-	(10,495)	14,035
TV advertising	-	80,744	57,311	-	(54,478)	83,577
Stadium signage	-	1,159	-	-	-	1,159
Internet advertising	-	521	231	261	(485)	528
Revenue from sale of programming schedule space	-	-	521	-	-	521
Other TV revenue	-	-	1,298	-	-	1,298
Subscriptions	1,460	-	-	-	-	1,460
Books and catalogues	330	-	-	-	-	330
Other revenue	-	301	-	170	(421)	50
VAT relating to publications	(613)	-	-	-	-	(613)
Total gross operating revenue	**46,543**	**96,738**	**59,361**	**431**	**(65,879)**	**137,194**
Other revenue	864	481	3,697	-	-	5,042
Total revenue	**47,407**	**97,219**	**63,058**	**431**	**(65,879)**	**142,236**

Gross revenue (€ thousands)	**Half year at 30/06/2013 (six months)**					
	Magazine publishing	**Advertising**	**TV publishing (La7)***	**Trovatore**	**Intra-group eliminations**	**Total**
Magazine over-the-counter sales	35,965	-	-	-		35,965
Print media advertising	10,912	14,252	-	-	(10,626)	14,538
TV advertising	-	85,250	20,090	-	(20,090)	85,250
Stadium signage	-	1,342	-	-	-	1,342
Internet advertising	-	90	-	15	-	105
Revenue from sale of programming schedule space	-	-	1,516	-	-	1,516
Other TV revenue	-	-	622	-	-	622
Subscriptions	1,520	-	-	-	-	1,520
Books and catalogues	249	-	-	-	-	249
Other revenue	-	290	-	169	(409)	50
VAT relating to publications	(608)	-	-	-	-	(608)
Total gross operating revenue	**48,038**	**101,224**	**22,228**	**184**	**(31,125)**	**140,549**
Other revenue	1,467	3,752	281	-	(2,604)	2,896
Total revenue	**49,505**	**104,976**	**22,509**	**184**	**(33,729)**	**143,445**

(*) The amounts shown for the “TV publishing” segment refer to the two-month period from 1 May 2013 to 30 June 2013

The main figures of the **statement of financial position** at 30 June 2014 can be analyzed versus the situation at 31 December 2013:

(€ thousands)	**30/06/2014**	**31/12/2013**
Statement of financial position		
Property, plant and equipment	2,735	2,829
Intangible assets	15,987	12,986
Financial assets	478	555
Deferred tax assets	3,206	4,589
Net current assets	(10,810)	(22,390)
Total assets	**11,596**	**(1,431)**
Non-current borrowings and provisions	46,566	46,814
(Net financial assets)/Net debt	(152,506)	(172,915)
Equity attributable to the owners of the parent	117,516	124,658
Equity attributable to non-controlling interests	20	12
Total equity and liabilities	**11,596**	**(1,431)**

At their Meeting on 29 April 2014, the shareholders approved the distribution of a dividend of 0.27 Euro per share, inclusive of tax, with coupon detachment date on 12 May 2014 (made payable on 15 May 2014), for a total of Euro 21.2 million.

It should be noted that in the consolidated financial statements for the year 31 December 2013, the acquisition of La7 S.r.l had been accounted for under IFRS 3, applying the "acquisition method", by measuring the fair value of identifiable assets and liabilities acquired, considering the future income capacity of La7 S.r.l. at the date of acquisition. This approach determined:

- the recognition of "provisions for future risks and charges" of Euro 21.4 million, regarding certain contracts whose non-discretionary costs to fulfill obligations exceeded the assumed economic benefits, and specific risk situations related to existing and/or performed contracts and pending litigation
- the full write-down of non-current assets at the date of acquisition of La7 (30 April 2013), consisting primarily of TV broadcasting rights, and specific technical equipment, whose value was deemed unrecoverable in view of the income prospects of La7 S.r.l. at the acquisition date.

In 2014, as part of the share buy-back plans, no treasury shares were sold or purchased. At 30 June 2014, Cairo Communication held a total of n. 779 treasury shares, of the share capital, subject to art. 2357-ter of the Italian Civil Code.

The consolidated **net financial position** at 30 June 2014, versus the situation at 31 December 2013, can be summarized as follows:

(€ thousands)	30/06/2014	31/12/2013	Change
Cash and cash equivalents	152,506	172,915	(20,409)
Current financial assets	-	-	-
Total	**152,506**	**172,915**	**(20,409)**

At 30 June 2014, the net financial position of La7 came to Euro 121 million (Euro 115.8 million at 31 December 2013). Under the contract to acquire the entire share capital of La7, entered into in April 2013, for a period of 24 months following acquisition, Cairo Communication undertakes to use the financial resources resulting from the contribution received from Telecom Italia Media in the exclusive interest of La7 and to restructure the company, and to not distribute dividends or reserves of La7.

Cairo Communication S.p.A. – Parent performance

The main **income statement figures of Cairo Communication S.p.A.** in 1H14 can be compared with those in 1H13:

(€ thousands)	30/06/2014 (Half year)	30/06/2013 (Half year)
Gross operating revenue	62,578	63,544
Advertising agency discounts	-	-
Net operating revenue	**62,578**	**63,544**
Other revenue and income	144	3,283
Total revenue	**62,722**	**66,827**
Production cost	(57,880)	(60,610)
Personnel expense	(1,480)	(1,416)
Gross operating profit (EBITDA)	**3,362**	**4,801**
Amortization, depreciation, provisions and impairment losses	(100)	(79)
Operating profit (EBIT)	**3,262**	**4,722**
Net financial income	310	757
Income (loss) on investments	1,039	3,729
Pre-tax profit	**4,611**	**9,208**
Income tax	(1,171)	(1,919)
Profit from continuing operations	**3,440**	**7,289**
Loss from discontinued operations	-	-
Profit	**3,440**	**7,289**

In 2014, 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, invoicing advertising spaces directly to its customers and returning to the sub-grantor Cairo Communication a share of revenue generated by resources managed on a sub-concession basis. Specifically:

- gross operating revenue was approximately Euro 62.7 million (Euro 66.8 million in 1H13);

- parent gross operating profit (EBITDA) was approximately Euro 3.4 million (Euro 4.8 million in 1H13);
- operating profit (EBIT) was approximately Euro 3.3 million (Euro 4.7 million in 1H13);
- profit was approximately Euro 3.4 million (Euro 7.3 million in 1H13).

"Income (loss) on investments" mainly consists of dividends approved by the subsidiary Cairo Pubblicità, amounting to Euro 1 million (Euro 3.4 million in 2013). In 1H13, the item included the gains from the disposal of Dmail Group shares, equal to Euro 327 thousand.

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

(€ thousands)	**30/06/2014**	**30/06/2013**
Statement of comprehensive income of the Parent		
Profit	**3,440**	**7,289**
Other reclassifiable items of the comprehensive income statement		-
Profit on measurement of available-for-sale financial assets	-	69
Other non-reclassifiable items of the statement of comprehensive income	-	-
Actuarial profit (loss) from defined benefit plans	(39)	-
Tax effect	11	-
Total statement of comprehensive income	**3,412**	**7,358**

The main figures of the **statement of financial position** at 30 June 2014 of Cairo Communication S.p.A. can be analyzed versus the situation at 31 December 2013:

(€ thousands)	**30/06/2014**	**31/12/2013**
Statement of financial position		
Property, plant and equipment	521	519
Intangible assets	354	356
Financial assets	17,644	17,614
Other non-current assets	13	13
Net current assets	18,736	14,961
Total assets	**37,268**	**33,493**
Non-current borrowings and provisions	1,230	1,346
(Net financial position)/Net debt	(14,060)	(35,690)
Equity	50,098	67,837
Total equity and liabilities	**37,268**	**33,493**

As mentioned in the notes to the consolidated statement of financial position figures, at their Meeting on 29 April 2014, the shareholders approved the distribution of a dividend of 0.27 Euro per share, inclusive of tax, with coupon detachment date on 12 May 2014 (made payable on 15 May 2014), for a total of Euro 21.2 million.

The **net financial position** of the Parent at 30 June 2014, versus the situation at 31 December 2013, is summarized as follows:

(€ thousands)	**30/06/2014**	**31/12/2013**	**Change**
Cash and cash equivalents	14,060	35,690	(21,630)
Current financial assets	-	-	-
Total	**14,060**	**35,690**	**(21,630)**

Statement of reconciliation of the Parent's equity and profit and Group equity and profit

The **statement of reconciliation** of equity and profit of Cairo Communication S.p.A. and Group equity and profit at 30 June 2014 can be analyzed as follows:

(€ thousands)	**Equity**	**Profit**
Half-year financial statements of Cairo Communication S.p.A.	**50,089**	**3,440**
Elimination of the carrying amount of consolidated equity investments:		
Difference between carrying amount of investments and their equity value	124,832	-
Other effects of purchase price allocation of La7 S.r.l.	(45,426)	12,551
Share in subsidiaries' profit net of investment impairment losses	-	(537)
Allocation of consolidation differences:		
Goodwill	7,198	-
Elimination of intra-group profits net of income tax	(19,186)	90
Elimination of intra-group dividends	-	(1,039)
Half-year consolidated financial statements of the Cairo Communication Group	**117,516**	**14,505**

Main business segment operating results

PRINT MEDIA PUBLISHING

CAIRO EDITORE - CAIRO PUBLISHING

The results achieved by Publishing in 1H14 can be analyzed as follows:

Print media publishing *(€ thousands)*	**30 June 2014**	**30 June 2013**
Gross operating revenue	46,543	48,038
Advertising agency discounts	-	-
Net operating revenue	**46,543**	**48,038**
Other income	864	1,467
Change in inventory	(35)	(77)
Total revenue	**47,372**	**49,428**
Production cost	(31,437)	(35,076)
Personnel expense	(9,667)	(9,718)
Gross operating profit (EBITDA)	**6,268**	**4,634**
Amortization, depreciation, provisions and impairment losses	(542)	(569)
Operating profit (EBIT)	**5,726**	**4,065**
Net financial income	17	20
Pre-tax profit	**5,743**	**4,085**
Income tax	(2,063)	(1,589)
Non-controlling interests	-	-
Profit from continuing operations attributable to the owners of the parent	**3,680**	**2,496**
Profit/(loss) from discontinued operations	-	-
Profit	**3,680**	**2,496**

In 1H14, Cairo Editore strengthened the results of its publications and worked on improving the levels of efficiency reached in containing production, publishing and distribution costs.

The half-year period:

- confirmed the excellent circulation results, with revenue at Euro 34.8 million versus Euro 35.9 million in 1H13,
- Group gross advertising revenue, which reached Euro 14 million, dropped by 3.5% versus 1H13 (*ACNielsen*, -11% the magazine advertising market in 1H14). In 2Q14, instead, gross advertising revenue from Group publications, amounting to Euro 8.7 million, grew by 1% versus 2Q13, reporting a strong reversal versus the trend seen over the past few years.

Gross operating profit (EBITDA) and operating profit (EBIT) came to Euro 6.3 million and Euro 5.5 million, up by 35.3% and 40.8% versus the same results in 1H13 (Euro 4.6 million and Euro 4.1 million).

The Group weeklies confirmed the excellent circulation results achieved, with an average ADS circulation in the January-May five-month period of 2014 of 522,968 copies for “Settimanale DIPIU”, 343,219 copies for “DIPIU’ TV”, 173,575 copies for “Settimanale DIPIU’ e DIPIU’TV Cucina”, 185,294 copies for “Diva e Donna”, 197,050 copies for “Settimanale Nuovo”, 130,843 copies for “F”, 157,267 copies for “TVMia” and 100,938 copies for “Settimanale Giallo”, reaching a total of about 1.8 million average copies sold, and making the Group the leading publisher in copies of weeklies sold at newsstands, with an over 25% market share.

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

- cover prices of the weeklies are lower, some half the price of those of the main competitors; this gap increases appeal and allows space for potential price increases, hence for increased profitability;
- sales are mostly over-the-counter (95%), with a minimum impact of revenue generated by gifts and sundry editorial material (approximately 2% on total publishing revenue, including advertising), whose sales figures have collapsed in the publishing segment; the Group has opted to focus on the quality of its publications; in 2013, gross advertising revenue generated by the Group’s publications accounted for 27% (basically confirmed in 1H14) - an extremely low figure if compared with the revenue breakdown of other major publishing groups, therefore based to a lesser extent on the economic cycle - while the remaining 73% (basically confirmed in 1H14) came from direct sales and subscriptions, proof of the high editorial quality of publications;
- weekly magazines, which account for approximately 90% of total publishing sales revenue, are sold as single copies and not bundled with other weeklies and/or dailies to bolster sales;
- the remarkable sales volumes achieved, both in absolute terms and versus Cairo Editore’s competitors, make the advertising pages highly appealing in terms of advertising cost per copy sold (equal to the difference between the price of the advertising page and copies sold), currently lower than the publications of its competitors.

In 1H14, Cairo Editore continued to pursue opportunities to optimize production, publishing and distribution costs, which mainly regarded negotiations for the reduction of paper costs, the optimization of bordereau costs, and the revision of certain corporate processes.

ADVERTISING

The results achieved by Advertising in 1H14 can be analyzed as follows:

Advertising *(€ thousands)*	**30 June 2014**	**30 June 2013**
Gross operating revenue	96,738	101,224
Advertising agency discounts	(13,829)	(14,534)
Net operating revenue	**82,909**	**86,690**
Other income	481	3,752
Change in inventory	-	-
Total revenue	**83,390**	**90,442**
Production cost	(75,287)	(80,060)
Personnel expense	(3,316)	(2,883)
Gross operating profit (EBITDA)	**4,787**	**7,499**
Amortization, depreciation, provisions and impairment losses	(606)	(585)
Operating profit (EBIT)	**4,181**	**6,914**
Net financial income	325	830
Income (loss) on investments	(1)	563
Pre-tax profit	**4,505**	**8,307**
Income tax	(1,537)	(2,838)
Non-controlling interests	-	-
Profit from continuing operations attributable to the owners of the parent	**2,968**	**5,469**
Profit / (loss) from discontinued operations	-	-
Profit	**2,968**	**5,469**

Looking at the advertising segment, in 1H14 the Cairo Communication Group continued to operate as advertising broker - with its subsidiary Cairo Pubblicità - selling space in the print media for Cairo Editore (“For Men Magazine”, “Natural Style”, “Settimanale DIPIU’”, “DIPIU’ TV” and weekly supplements “Settimanale DIPIU’ e DIPIU’TV Cucina” and “Settimanale DIPIU’ e DIPIU’TV Stellare”, “Diva e Donna”, “TV Mia”, “Settimanale Nuovo”, “F” and “Settimanale Giallo”), the Editoriale Giorgio Mondadori division (“Bell’Italia”, “Bell’Europa”, “In Viaggio”, “Airone”, “Gardenia”, “Arte” and “Antiquariato”) and for Editoriale Genesis (“Prima Comunicazione” and “Uomini e Comunicazione”), for the sale of advertising space on TV for La7 and La7d, and for Turner Broadcasting (Cartoon Network, Boomerang, CNN), on the Internet (La7.it, La7.tv, Cartoon Network.it, Cnn.com) and for the sale of stadium signage and space at the Olimpico in Turin for Torino FC.

In 1H14, total gross advertising revenue, which includes TV advertising revenue invoiced directly by La7 (Euro 3.3 million), came to approximately Euro 100 million. Specifically, advertising revenue on La7 and La7d, totaling Euro 82.4 million, basically confirmed revenue in 1H13 (Euro 82.6 million).

As previously mentioned, in 1H14 Group gross advertising revenue on Cairo Editore publications, which reached Euro 14 million, dropped by 3.5% versus 1H13 (*ACNielsen*, -11% the magazine advertising market in 1H14). Specifically, in 2Q14 it amounted to Euro 8.7 million, growing, instead, by 1% versus 2Q13, reporting a strong reversal versus the trend seen over the past few years.

For a comparative assessment of the advertising revenue trend, it should also be noted that in 1H13 the advertising sales concession contract on Sportitalia channels was consensually terminated, effective 30 April 2013. The contract had generated gross advertising revenue of approximately Euro 2.3 million.

TV PUBLISHING (La7)

The results achieved by TV Publishing (La7) can be analyzed as follows:

(€ thousands)	**30/06/2014 (Half year)**			**30/06/2013 (May-June 2013) ***		
	Current operations	**Non-recurring items**	**Total**	**Current operations**	**Non-recurring items**	**Total**
Gross operating revenue	59,361	-	59,361	22,228	-	22,228
Advertising agency discounts	-	-	-	-	-	-
Net operating revenue	**59,361**	**-**	**59,361**	**22,228**	**-**	**22,228**
Change in inventory	-	-	-	-	-	-
Other income	3,697	-	3,697	281	-	281
Total revenue	**63,058**	**-**	**63,058**	**22,509**	**-**	**22,509**
Production cost	(40,155)	-	(40,155)	(15,698)	(1,917)	(17,615)
Personnel expense	(18,035)	-	(18,035)	(6,416)	-	(6,416)
Gross operating profit (EBITDA)	**4,868**	**-**	**4,868**	**395**	**(1,917)**	**(1,522)**
Amortization, depreciation, provisions and impairment losses	(877)	-	(877)	(424)	-	(424)
Operating profit (EBIT)	**3,991**	**-**	**3,991**	**(29)**	**(1,917)**	**(1,946)**
Net financial income	865	-	865	531	-	531
Income (loss) on investments	-	-	-	-	-	-
Non-recurring income from the acquisition of La7 S.r.l.	-	-	-	-	57,066	57,066
Pre-tax profit	**4,856**	**-**	**4,856**	**502**	**55,149**	**55,651**
Income tax	2,970	-	2,970	-	-	-
Non-controlling interests	-	-	-	-	-	-
Profit from continuing operations attributable to owners of the parent	**7,826**	**-**	**7,826**	**502**	**55,149**	**55,651**

(*) The amounts shown for 1H13 refer to the two-month period from 1 May 2013 to 30 June 2013

As previously mentioned, to provide a better understanding of the figures for comparative purposes, it should be noted that

- the 1H13 income statement included the results of La7 S.r.l., which was consolidated on 1 May 2013, with regard only to the May-June two-month period of 2013;
- the 1H13 profit had benefited from the “non-recurring income from the acquisition of La7”, which had been initially recognized for an amount of Euro 54.7 million, then retrospectively adjusted to Euro 57.1 million, as shown in this Report.

In 2013, the Group started operations in the TV publishing field with the acquisition from Telecom Italia Media S.p.A. of the entire share capital of La7 S.r.l. as from 30 April 2013. The financial situation of the company had called for the implementation of a restructuring plan aimed at reorganizing and streamlining the corporate structure and at curbing costs, while retaining the high quality levels of the programming.

Starting from May 2013, the Group began to implement its own plan to restructure the company, achieving, as early as the May-December eight-month period of 2013 a positive gross operating profit (EBITDA) of Euro 3.7 million.

In 2014, the Group continued with its plan to restructure La7, by adopting the following main guidelines:

- confirming the editorial line and those programs that represent the main strengths of the channel,
- curbing costs, focusing in particular on “unproductive” cost items and items that exceed the cost/benefit ratio, and on recovering efficiency,
- enhancing the high quality of the La7 target audience, to maintain and develop the high level of advertising revenue against the general market backdrop,

managing to (i) strengthen the results of the cost rationalization measures implemented in the first eight months of activity in 2013 and (ii) achieve also in 1H14 a positive gross operating profit (EBITDA) of Euro 4.9 million versus the gross operating loss of Euro 28.7 million of La7 in 1H13.

In 1H14, La7 did not absorb cash (Euro 121 million the positive net financial position at 30 June 2014 versus Euro 115.8 million at 31 December 2013).

Operating profit (EBIT) came to Euro 4 million and benefited in the consolidated financial statements from lower amortization and depreciation of Euro 12.4 million, due to the write-down of tangible and intangible assets made in the purchase price allocation of the investment. Net of these effects, it would have shown a negative figure of approximately Euro 8.4 million.

Gross operating profit (EBITDA) in the TV publishing segment in 1H14 can be analyzed as follows with the same result of current operations of the January-June six-month period of 2013 (versus the May-June two-month period of 2013 included in the condensed consolidated half-year financial statements at 30 June 2013):

(€ thousands)	**30/06/2014 (six months)**	**30/06/2013 (six months)***
Gross operating revenue	59,361	59,639
Advertising agency discounts	-	-
Net operating revenue	**59,361**	**59,639**
Change in inventory	-	-
Other revenue and income	3,697	768
Total revenue	**63,058**	**60,407**
Production cost	(40,155)	(66,695)
Personnel expense	(18,035)	(22,390)
Gross operating profit (EBITDA)	**4,868**	**(28,678)**

In 1H14, La7's average all-day share was 3.60% and 4.24% in prime time (from 8:30 PM to 11:30 PM), with a high-quality target audience. La7d's share grew to 0.49%. The results of the channel's news and discussion programmes - such as the 8 PM newscast (6.3%), "Otto e mezzo" (5.8%), "Piazza Pulita" (5%), "Crozza nel Paese delle Meraviglie" (9.2%) "Servizio Pubblico" (8.2%), "Anno Uno" (7.4%) "Le invasioni Barbariche" (4.2%), "Coffee Break" (5.5%), "Omnibus" (4.4%), "La Gabbia" (3.75%), "L'aria che tira" (6.3%) and "Bersaglio Mobile" (5.8%) - were highly positive.

IL TROVATORE

In 2014, Il Trovatore continued operations, mainly providing technological services to develop and maintain the online platforms of the Group's companies.

Alternative performance indicators

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

The alternative indicators are:

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

Profit from continuing operations, pre tax

- Net finance income

- Share in associates

EBIT- Operating profit

+ Amortization & depreciation

+ Bad debt impairment losses

+ Provisions for risks

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

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

Transactions with parents, subsidiaries and associates

In 1H14, transactions with related parties, including with Group companies, were not considered to be atypical or unusual, and were part of the ordinary activities of Group companies. These transactions were carried out on market terms, taking account of the goods and services provided.

In 1H14, the relations and transactions with the parent U.T. Communications and with its subsidiaries can be analyzed as follows:

- the concession contract between Cairo Pubblicità and Torino FC S.p.A. (a subsidiary of U.T. Communications) for the sale of advertising space at the Olimpico football pitch and promotional sponsorship packages. This contract resulted in the payment in 1H14 of Euro 924 thousand to the concession holder against total revenue of Euro 1.112 thousand net of agency discounts. Cairo Pubblicità earned further commissions of Euro 29 thousand;
- the agreement between Cairo Communication S.p.A. and Torino F.C. for the provision of administrative services such as bookkeeping, which provides for an annual consideration of Euro 100 thousand;
- the agreement relating to the purchase of advertising space at the Olimpico football pitch between Cairo Editore and Torino F.C., for an annual consideration of Euro 100 thousand;
- the tax consolidation scheme; in this context, the half-year financial report at 30 June 2014 includes receivables from and payables to the parent U.T. Communications S.p.A. respectively of Euro 7,624 thousand and Euro 332 thousand.

At their meeting on 29 April 2014, the shareholders resolved to determine the total remuneration for the Board of Directors, pursuant to art. 2389, paragraph 1 of the Italian Civil Code, in the amount of Euro 260,000 per year for each financial year, and approved the 2014 remuneration policy, as illustrated in Section 1 of the Remuneration Report, drawn up pursuant to article 123-ter of Legislative Decree 58/1998 and 84 quater of the Issuers' Regulations, and approved by the Board of Directors on 11 March 2014.

Main risks and uncertainties to which Cairo Communication S.p.A. and its Group are exposed, which could impact on the business outlook for 2H14

The Directors’ Report on the financial statements for the year ended 31 December 2013 includes a description, to which reference must be made, of the main risks and uncertainties to which Cairo Communication S.p.A. and the Group are exposed, as well as the strategies and activities implemented to monitor and counter them. Specifically:

- <u>Risks associated with the general economic climate,</u> and with the potential effects of the persisting factors of economic uncertainty in the short-medium term on the Group’s business, strategies and outlook.

- Risks associated with advertising and publishing market trends, mainly related to the general contraction in sales and the advertising market trend, regarding mostly magazines and TV.
- Risks associated with extraordinary transactions, mainly related to the implementation of the restructuring plan for La7 and to the strengthening of the results of the rationalization and cost-curbing measures already implemented, to continue to pursue a turnaround.
- Risks associated with developments in the media segment as a result of the penetration of new communication resources, in particular the Internet and free digital TV, together with changes in the relevant regulatory framework.
- Risks associated with Management and "key staff", hence with the ability of its executive directors, editors-in-chief, TV personalities, and other Management members to efficiently manage the Group, and with the ability of the Group to attract and retain new talents.
- Risks associated with retaining the value of the brands of the Group titles, by maintaining the current levels of quality and innovation.
- Risks associated with business suppliers regarding the outsourcing of production processes, specifically printing and distribution, and the production of TV content.
- Risks associated with developments in the legal and regulatory framework, specifically for the television industry.
- Risks associated with litigation, the notes on "Other information" (Note 24 of the notes to the condensed consolidated half-year financial statements) contain information on the main pending cases.

This interim half-year report provides a summary of financial and other risks that could impact on the outlook for 2H14.

Risks associated with the general economic climate

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

In 1H14, the general economic and financial climate continued to be marked by economic uncertainty and by the resulting negative effects. To date, 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 business targets.

Risks associated with advertising and publishing market trends

The deterioration of the short and medium-term economic uncertainty continued to impact negatively on the advertising market, and also led to a contraction in magazine sales.

Nielsen's analysis by segment shows that in 1H14:

- the magazine advertising market lost 11% versus 2013, when in 1H13 it had slipped by 24.3% versus 2012,
- the TV advertising market grew by 1.3% versus 2013, when in 1H13 it had shed 16.4% versus 2012.

The short and medium-term economic uncertainty also led, in the publishing segment, to a contraction in magazine sales.

The Cairo Communication Group is significantly exposed to advertising sales. Exposure has gradually decreased over time as a result of the strong growth of the magazine publishing business.

The consolidation of La7 S.r.l. brought no significant change to revenue, since over 90% of La7 S.r.l. revenue comes from advertising sales generated by Cairo Communication under the advertising concession contract in effect before the acquisition.

In the TV publishing segment, advertising revenue is currently the main source of income.

Advertising revenue accounted in 2013 for approximately 69% of total Group revenue, or 71% if advertising revenue from La7 is also considered.

Considering the Group's magazine publishing business alone, Group advertising sales in 2013 accounted for 27% (basically confirmed in 1H14) - much lower than the revenue breakdown of other major publishing groups - while the remaining 73% (basically confirmed in 1H14) was generated by distribution and subscription revenue, demonstrating the great publishing strength of advertising products.

As previously mentioned, it should be noted that in 1H14:

- gross advertising revenue from Group publications, amounting to Euro 14 million, on a consolidated level, fell only by 3.5% versus 1H13. Specifically, in 2Q14, gross advertising revenue from Group publications, amounting to Euro 8.7 million, grew by 1% versus 2Q13, reporting a strong reversal versus the trend seen over the past few years;
- advertising sales on La7 and La7d, amounting to Euro 82.4 million, basically confirmed the 1H13 result (Euro 82.6 million).

<u>Risks associated with extraordinary transactions</u>

As previously mentioned, in 2013 Cairo Communication S.p.A. acquired from Telecom Italia Media, through Cairo Due S.r.l., the entire share capital of La7 S.r.l.

The financial situation of the company had called for the implementation of a restructuring plan aimed at reorganizing and streamlining the corporate structure and at curbing costs, while retaining the high quality levels of the programming.

Starting from May 2013, the Group began to implement its own plan to restructure the company, by adopting the following main guidelines:

- confirming the editorial line and those programs that represent the main strengths of the channel,
- curbing costs, focusing in particular on "unproductive" cost items and items that exceed the cost/benefit ratio, and on recovering efficiency,
- enhancing the high quality of the La7 target audience, to maintain and develop the high level of advertising revenue against the general market backdrop.

In the May-December eight-month period of 2013, current operations of La7, which generated a positive gross operating profit (EBITDA) of Euro 3.7 million, did not absorb cash.

In 1H14 too, <u>gross operating profit</u> (EBITDA) and <u>operating profit</u> (EBIT) came to approximately Euro 4.9 million and Euro 4 million, while La7 operations did not absorb cash (positive net financial position of Euro 121 million at 30 June 2014). <u>Operating profit</u> (EBIT) benefited in the consolidated financial statements from lower amortization and depreciation of Euro 12.4 million, due to the write-down of tangible and intangible assets made in the purchase price allocation of the investment. Net of these effects, it would have shown a negative figure of approximately Euro 8.4 million. In 1H13 - when La7 had not been fully included yet in the scope of consolidation of the Cairo Communication Group - <u>gross operating loss</u> had amounted to approximately Euro 28.7 million.

In 2H14, the Group will continue to engage with the aim of strengthening the results of the rationalization and cost curbing measures achieved in the first fourteen months of activity.

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

Risks associated with developments in the media segment

The media segment is witnessing an increase in the level of penetration of new communication resources, in particular the Internet and the new theme channels on the digital terrestrial platform, together with technology innovations that may lead to changes in demand by consumers, who in future will probably request personalized content by even directly selecting the source. As a result, this may change the relative importance of the various media and audience distribution, with consequent greater market fragmentation.

Whereas the development of the Internet may impact on the share of print media, mainly on dailies and to a much lesser extent on Group weeklies, the development of the Internet and of digital theme television may impact on the traditional TV audience.

Any development of new TV channels by the Group may, however, allow it to benefit from this trend.

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

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

Risks associated with Management and "key staff"

The Group's success depends on the talents of its executive Directors and other members of Management to efficiently manage the Group and the individual business segments. Editors-in-chief and TV personalities, too, have a significant role in relation to the publications they lead and the programmes they host.

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

Risks associated with litigation

The notes on “Other information” (Note 24 of the notes to the condensed consolidated half-year financial statements) contain information on a number of cases of litigation. The evaluation of the potential legal and tax liabilities requires the Company to use estimates and assumptions in relation to forecasts made by the Directors, based upon the opinions expressed by the Company’s legal and tax advisers, in relation to the probable cost that can be reasonably considered to be incurred. The actual results may vary from these estimates.

Credit risk

The Group is exposed to credit risk, primarily in relation to its advertising sales activities. This risk is however mitigated by the fact that the exposure is divided across a large number of customers and that credit monitoring and control procedures are in place. The client concentration/revenue ratio remained basically unchanged versus the previous periods.

The risk on advertising receivables from print media is broken down into an even larger amount of clients, whilst for circulation revenue, the distribution contract provides for an advance payment equal to a very significant percentage of the estimated sales of each magazine.

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

The Group’s maximum theoretical exposure to credit risk at 30 June 2014 is given by the carrying amount of trade receivables and other recognized current assets totaling 103.4 million, and by the nominal amount of guarantees given on third-party debts or commitments as indicated in Note 24 of the notes to the consolidated financial statements.

The credit risks associated with cash and cash equivalents, with a maximum theoretical exposure of Euro 152.5 million, are considered irrelevant as they are deposits spread across various banks, based on the criteria described below in the notes to the “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 152.5 million, whilst on the other hand, the Group attempts to ensure in its traditional segments that an appropriate ability to generate cash is maintained, despite current market conditions.

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

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

Interest rate and currency risk

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

Interest rate risk only affects the yield on available cash.

Given limited exposure to both interest rate and currency 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 their abilities and the recognition of their achievements and responsibilities are the principles which govern personnel management, from the selection phase, which is facilitated by the high degree of the Group's visibility and its ability to attract personnel.

Staff turnover in 1H14 and its composition at 30 June 2014 can be analyzed as follows:

Description	01/01/2014	Recruitments	Terminations	Advancements	30/06/2014
Open-ended contracts	**697**	16	(9)	-	**704**
Senior managers	24	1	(1)	-	**24**
Managers	82	1	(2)	-	**81**
Employees	371	11	(3)	-	**379**
Journalists and freelance	220	3	(3)		**220**
Fixed-term contracts	**40**	**38**	**(35)**	-	**43**
Senior managers	-	-	-	-	**-**
Managers	-	-	-	-	**-**
Employees	31	30	(30)	-	**31**
Journalists and freelance	9	8	(5)	-	**12**
Total	**737**	**54**	**(44)**	**-**	**747**

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

	Senior managers	**Managers**	**Employees**	**Journalists**
Men (number)	23	52	211	96
Women (number)	1	29	199	136
Average age	49	48	44	48
Seniority	11	12	12	14
Open-ended contracts	24	81	380	219
Fixed-term contracts	-	-	31	12
Other	-	-	-	-
Graduates	20	34	104	112
Diploma holders	4	47	284	118
Middle-school graduates	-	-	22	2

Most of the employees (444) works in the TV segment (224), followed by magazine and book publishing. The advertising segment employs 79 people and draws on a sales force composed of approximately 100 agents (direct and indirect) who are coordinated by senior sales managers and staff who, together with their staff, also ensure coordination with the editors and the promotion of special projects.

The Group is committed to pursuing health and safety objectives at the workplace In 1H14, there were neither workplace accidents nor charges connected with professional illness in respect of occupational diseases to employees.

Events occurring after 1H14 and business outlook

On 12 April 2014, the subsidiary Cairo Network S.r.l. (former Cairo Sport S.r.l.) applied for admission to bid in the auction opened by the Ministry of Economic Development for the awarding of the so-called L3 Lot, put up for tender with a starting price of Euro 31.6 million. This lot includes the granting of rights to use - for a period of 20 years - the 2-SFN multiplex on channels 25 and 59 ("Mux"). The L3 Lot frequencies have an estimated nominal coverage of 96.6% of the population. On 15 May 2014, the Ministry of Economic Development announced the admission of Cairo Network to the tender. On 13 June 2014, the Company submitted its binding bid and won the rights. The award was announced on 26 June 2014.

On 25 July 2014, Cairo Network paid the amount offered in its bid (Euro 31.6 million), using own funds of Euro 6.6 million (arising from a capital increase of Euro 5.5 million and a shareholder loan of Euro 1.1 million) and by means of a bank loan of Euro 25 million granted by Unicredit S.p.A.. The loan is secured by a guarantee issued by the parent Cairo Communication, and calls for the payment of an interest rate equal to the 3-month Euribor plus 225 basis points and certain constraints (negative pledges) and commitments (covenants) on the part of the company, which are typical of these transactions. On 31 July 2014, the Ministry of Economic Development issued the rights of use.

In 1H14, the Group came to terms with a challenging relevant market, advertising in particular (*AC Nielsen*, in 1H14, TV advertising market up by 1.3% and the magazine advertising market down by 11% versus the same period last year).

Despite this backdrop, in 1H14 the Cairo Communication Group:

- strengthened the results of the cost rationalization measures in the TV publishing segment (La7) implemented during the eight months of activity in 2013, and continued to pursue a turnaround, succeeding in achieving also in 1H14 a positive gross operating profit (EBITDA) of Euro 4.9 million versus the gross operating loss of Euro 28.7 million of La7 in 1H13;
- strengthened the results of “F”, “Settimanale Nuovo” and “Settimanale Giallo”, confirmed the high circulation levels of the other publications, and worked on improving the levels of

efficiency reached in containing costs in the magazine publishing segment (production, publishing and distribution);

- kept advertising revenue levels high, with the aim of maintaining and developing them in the remaining part of 2014 despite the general market trend;
- achieved highly positive results in its traditional segments (magazine publishing and advertising), despite the general economic and financial climate and relevant market trend.

In 2H14, the Cairo Communication Group will continue to pursue the development of its traditional segments (magazine publishing and advertising). Despite the economic and competitive backdrop, given the high quality of the publications and of the media under concession, the Group considers it a feasible target to continue to achieve positive operating results.

Regarding the TV publishing segment, in the remaining part of 2014 the Group will continue to engage with the aim of strengthening the results of the rationalization and cost curbing measures achieved in the first fourteen months of activity.

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

For the Board of Directors

Chairman Urbano Cairo

CAIRO COMMUNICATION

Condensed consolidated half-year financial statements at 30 June 2014

CONSOLIDATED INCOME STATEMENT AT 30 JUNE 2014

€ thousands	Notes	Half-year ended 30 June 2014	Half-year ended 30 June 2013
Revenue	1	123,365	126,015
Other revenue and income	2	5,042	2,896
Change in inventory of finished products	3	(35)	(77)
Raw materials, consumables and supplies	4	(11,724)	(14,281)
Services	5	(56,167)	(76,390)
Non-recurring costs for services	10	0	(1,917)
Use of third-party assets	6	(12,599)	(5,975)
Personnel expense	7	(31,036)	(19,034)
Amortization, depreciation, provisions and impairment losses	8	(2,025)	(1,578)
Other operating costs	9	(863)	(625)
Operating profit		**13,958**	**9,034**
Profit (loss) on investments	17	(1)	563
Non-recurring income from the acquisition of La7 S.r.l.	10	0	57,066
Net financial income	11	1,207	1,380
Pre-tax profit		**15,164**	**68,043**
Income tax	12	(651)	(4,429)
Profit from continuing operations		**14,513**	**63,614**
Loss from discontinued operations	13	**0**	**0**
Profit for the period		**14,513**	**63,614**
- Owners of the parent		14,505	63,614
- Non-controlling interests - discontinued operations		0	0
- Non-controlling interests - continuing operations		8	0
		14,513	**63,614**
Earnings per share (euro)			
- Earnings per share - continuing and discontinued operations	15	0.185	0.785
-Earnings per share - continuing operations	15	0.185	0.785

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AT 30 JUNE 2014

		Half-year ended 30 June 2014	Half-year ended 30 June 2013
Profit for the period		**14,513**	**63,614**
Other reclassifiable items of the statement of comprehensive income			
Profit (loss) on measurement of available-for-sale financial assets	18	0	156
Tax effect		0	0
Other non-reclassifiable items of the statement of comprehensive income			
Actuarial profit (loss) from defined benefit plans	21	(695)	77
Tax effect		191	(21)
Total comprehensive income for the period		**14,009**	**63,826**
- Owners of the parent		14,001	63,826
- Non-controlling interests - discontinued operations		0	0
- Non-controlling interests - continuing operations		8	0
		14,009	**63,826**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2014

€ thousands Assets	Notes	30 June 2014	31 December 2013
Property, plant and equipment	16	2,735	2,829
Intangible assets	17	15,987	12,986
Investments	18	62	72
Non-current financial assets	18	416	483
Deferred tax assets	19	3,206	4,589
Total non-current assets		**22,406**	**20,959**
Inventory	20	3,464	4,104
Trade receivables	20	86,863	90,065
Receivables from parents	20	7,685	5,583
Other receivables and other current assets	20	6,863	8,369
Cash and cash equivalents	22	152,506	172,915
Total current assets		**257,381**	**281,036**
Total assets		**279,787**	**301,995**

Equity and liabilities		**30 June 2014**	**31 December 2013**
Share capital		4,074	4,027
Share premium reserve		41,062	45,452
Prior years profit (losses) and other reserves		57,875	985
Interim dividend of parent		0	0
Profit for the period		14,505	74,194
Equity attributable to the owners of the parent		**117,516**	**124,658**
Non-controlling interests share capital and reserves		**20**	**12**
Total equity	**23**	**117,536**	**124,670**
Post-employment benefits	21	12,517	11,832
Provisions for risks and charges	21	34,049	34,982
Total non-current liabilities		**46,566**	**46,814**
Trade payables	20	93,941	105,926
Payables to parents	20	333	11
Tax liabilities	20	3,203	3,752
Other current liabilities	20	18,208	20,822
Total current liabilities		**115,685**	**130,511**
Total liabilities		**162,251**	**177,325**
Total equity and liabilities		**279,787**	**301,995**

CONSOLIDATED CASH FLOW STATEMENT AT 30 JUNE 2014

€ thousands	Half-year ended 30 June 2014	Half-year ended 30 June 2013
CASH AND CASH EQUIVALENTS	**172,915**	**61,234**
OPERATING ACTIVITIES		
Profit for the period	14,513	63,614
Non-recurring income from the acquisition of La7 S.r.l.	0	(57,066)
Amortization/depreciation	1,290	430
Income (loss) on investments	1	(563)
Net financial income	(1,207)	(1,380)
Income tax	846	4,429
Change in post-employment benefits	685	(206)
Change in provisions for risks and charges	(933)	(146)
Cash flow from operating activities before changes in working capital	**15,195**	**9,112**
(Increase) decrease in trade and other assets	4,708	11,407
Increase (decrease) in trade and other liabilities	(14,599)	(3,539)
(Increase) decrease in other assets	0	0
(Increase) decrease in inventory	640	1,801
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	**5,944**	**18,781**
Income tax paid	(1,792)	(206)
Financial expense paid	(248)	(180)
TOTAL NET CASH FROM OPERATING ACTIVITIES (A)	**3,904**	**18,395**
INVESTING ACTIVITIES		
(Acquisitions) disposals net in PPE and intangible assets	(4,197)	(2,845)
Cash acquired net of the purchase price of La7 S.r.l. (*)	0	109,199
Interest and financial income received	1,455	1,560
Net increase in other non-current assets	76	327
NET CASH USED IN INVESTING ACTIVITIES (B)	**(2,666)**	**108,241**
FINANCING ACTIVITIES		
Dividends paid	(21,152)	(10,905)
(Acquisition) disposal of treasury shares	0	1,344
Increase (Decrease) in available-for-sale financial assets reserve	0	156
Re-measurement of defined-benefit plans inclusive of tax effect	(504)	56
Other changes in equity	9	(2)
NET CASH USED IN FINANCING ACTIVITIES (C)	**(21,647)**	**(9,351)**
CASH FLOW FOR THE PERIOD (A)+(B)+(C)	**(20,409)**	**117,285**
CLOSING CASH AND CASH EQUIVALENTS	**152,506**	**178,519**

(*) Main items of the consolidation of La7 S.r.l. at 30 April 2013:

Other non-current assets	(1,013)
Inventory	(1,557)
Trade and other current assets	(59,707)
Trade and other current liabilities	75,053
Provisions for risks and charges	32,176
Post-employment benefits	7,181
Non-recurring income from the acquisition of La7 S.r.l.	57,066
Cash acquired net of the purchase price paid for La7 S.r.l.	**109,199**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

€ thousands	Share capital	Share premium reserve	Prior years profit (loss) and other reserves	Reserve for available-for-sale financial assets	Interim dividend	Profit for the period	Equity attributable to the owners of the parent	Non-controlling interests share capital and reserves	Total
Balance at 31 December 2011	**4.074**	**49.586**	**(1.683)**	**0**	**(11.696)**	**23.446**	**63.727**	**3**	**63.730**
Effects from the application of amended IAS 19			(2)			2	0		0
Balance at 1 January 2012	**4.074**	**49.586**	**(1.685)**	**0**	**(11.696)**	**23.448**	**63.727**	**3**	**63.730**
Allocation of profit			23.448			(23.448)	**0**		**0**
Dividend distribution		(4.134)	(19.257)		11.696		**(11.695)**		**(11.695)**
Interim dividend					(10.126)		**(10.126)**		**(10.126)**
Purchase of treasury shares			(214)				**(214)**		**(214)**
Other changes			(5)				**(5)**		**(5)**
Total comprehensive income for the period						18.663	**18.663**	1	**18.664**
Balance at 31 December 2012	**4.074**	**45.452**	**2.287**	**0**	**(10.126)**	**18.663**	**60.350**	**4**	**60.354**
Effects from the application of amended IAS 19			(94)			94	0		0
Balance at 1 January 2013	**4.074**	**45.452**	**2.193**	**0**	**(10.126)**	**18.757**	**60.350**	**4**	**60.354**
Allocation of profit			18.757			(18.757)	**0**		**0**
Dividend distribution			(21.031)		10.126		**(10.905)**		**(10.905)**
Disposal of treasury shares			1.382				**1.382**		**1.382**
Actuarial profit (loss) from defined-benefit plans			(370)			370	**0**		**0**
Other changes			7				**7**		**7**
Total comprehensive income for the period						73.824	**73.824**	8	**73.832**
Balance at 31 December 2013	**4.074**	**45.452**	**938**	**0**	**0**	**74.194**	**124.658**	**12**	**124.670**
Allocation of profit			74.194			(74.194)	**0**		**0**
Dividend distribution		(4.390)	(16.762)				**(21.152)**		**(21.152)**
Actuarial profit (loss) from defined-benefit plans			(504)			504	**0**		**0**
Other changes			9				**9**		**9**
Total comprehensive income for the period						14.001	**14.001**	8	**14.009**
Balance at 30 June 2014	**4.074**	**41.062**	**57.875**	**0**	**0**	**14.505**	**117.516**	**20**	**117.536**

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

€ thousands	Half-year ended 30 June 2014	related parties (*)	% of total	Half-year ended 30 June 2013	% of total	% of total
Revenue	123,365	96	0.1%	126,015	90	0.1%
Other revenue and income	5,042		0.0%	2,896		
Change in inventory of finished products	(35)			(77)		
Raw materials, consumables and supplies	(11,724)			(14,281)		
Services	(56,167)	(1,032)	1.8%	(76,390)	(1,140)	1.5%
Non-recurring costs for services	0			(1,917)		
Use of third-party assets	(12,599)			(5,975)		
Personnel expense	(31,036)			(19,034)		
Amortization, depreciation, provisions and impairment losses	(2,025)			(1,578)		
Other operating costs	(863)			(625)		
Operating profit	**13,958**			**9,034**		
Income (loss) on investments	(1)			563		
Non-recurring income from the acquisition of La7 S.r.l.	0			57,066		
Net financial income	1,207			1,380		
Pre-tax profit	**15,164**			**68,043**		
Income tax	(651)			(4,429)		
Profit from continuing operations	**14,513**			**63,614**		
Profit (loss) from discontinued operations	**0**			**0**		
Profit for the period	**14,513**			**63,614**		

(*) Related party transactions are analyzed in Note 25

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

€ thousands						
Assets	**30 June 2014**	**related parties (*)**	**% of total**	**31 December 2013**	**related parties (*)**	**% of total**
Property, plant and equipment	2,735			2,829		
Intangible assets	15,987			12,986		
Investments	62			72		
Non-current financial assets	416			483		
Deferred tax assets	3,206			4,589		
Total non-current assets	**22,406**			**20,959**		
Inventory	3,464			4,104		
Trade receivables	86,863	255	0.3%	90,065	445	0.5%
Receivables from parents	7,685	7,685	100.0%	5,583	5,583	100.0%
Other receivables and other current assets	6,863	47	0.7%	8,369	47	0.6%
Cash and cash equivalents	152,506			172,915		
Total current assets	**257,381**			**281,036**		
Total assets	**279,787**			**301,995**		
Equity and liabilities	**30 June 2014**			**31 December 2013**		
Share capital	4,074			4,027		
Share premium reserve	41,062			45,452		
Prior years profit (losses) and other reserves	57,875			985		
Interim dividend of parent	0			0		
Profit for the period	14,505			74,194		
Equity attributable to the owners of the parent	**117,516**			**124,658**		
Non-controlling interests share capital and reserves	20			**12**		
Total equity	**117,536**			**124,670**		
Post-employment benefits	12,517			11,832		
Provisions for risks and charges	34,049			34,982		
Total non-current liabilities	**46,566**			**46,814**		
Trade payables	93,941	114	0.1%	105,926	181	0.2%
Payables to parents	333	333	100.0%	11	11	100.0%
Tax liabilities	3,203			3,752		
Other current liabilities	18,208			20,822		
Total current liabilities	**115,685**			**130,511**		
Total liabilities	**162,251**			**177,325**		
Total equity and liabilities	**279,787**			**301,995**		

(*) Related party transactions are analyzed in Note 25

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

€ thousands	Half-year ended 30 June 2014	related parties	Half-year ended 30 June 2013	related parties
CASH AND CASH EQUIVALENTS	**172,915**		**61,234**	
OPERATING ACTIVITIES				
Profit for the period	14,513	(936)	63,614	(1,050)
Non-recurring income from the acquisition of La7 S.r.l.	0		(57,066)	
Amortization/depreciation	1,290		430	
Income (loss) on investments	1		(563)	
Net financial income	(1,207)		(1,380)	
Income tax	846		4,429	
Change in post-employment benefits	685		(206)	
Change in provisions for risks and charges	(933)		(146)	
Cash flow from operating activities before changes in working capital	**15,195**	**(936)**	**9,112**	**(1,050)**
(Increase) Decrease in trade and other receivables	2,705	(1,912)	11,407	2,722
Increase (Decrease) in trade and other payables	(12,596)	255	(3,539)	(510)
(Increase) Decrease in inventory	640		1,801	
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	**5,944**	**(2,593)**	**18,781**	**1,162**
Income tax paid	(1,792)		(206)	
Financial expense paid	(248)		(180)	
TOTAL CASH FLOW FROM OPERATING ACTIVITIES (A)	**3,904**	**(2,593)**	**18,395**	**1,162**
INVESTING ACTIVITIES				
(Acquisitions) disposals net in PPE and intangible assets	(4,197)		(2,845)	
Cash acquired net of the purchase price of La7 S.r.l.	0		109,199	
Interest and financial income received	1,455		1,560	
Net increase in other non-current assets	76		327	
NET CASH USED IN INVESTING ACTIVITIES (B)	**(2,666)**	**0**	**108,241**	**0**
FINANCING ACTIVITIES				
Dividends paid	(21,152)		(10,905)	
(Purchase) disposal of treasury shares	0		1,344	
Increase (Decrease) in available-for-sale financial assets reserve	0		156	
Re-measurement of defined-benefit plans inclusive of tax effect	(504)		56	
Other changes in equity	9		(2)	
NET CASH USED IN FINANCING ACTIVITIES (C)	**(21,647)**	**0**	**(9,351)**	**0**
CASH FLOW FOR THE PERIOD (A)+(B)+(C)	**(20,409)**	**(2,593)**	**117,285**	**1,162**
CLOSING CASH AND CASH EQUIVALENTS	**152,506**		**178,519**	

EXPLANATORY NOTES

STRUCTURE, FORM AND CONTENT OF THE CONDENSED CONSOLIDATED HALF-YEAR 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 Standards Board (IASB) and approved by the European Union in accordance with Regulation 1606/2002. The term IFRS is used to also mean the International Accounting Standards (IAS) still in effect, and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

These 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 2013.

The same accounting standards applied to prepare the Group's consolidated financial statements for the year ended 31 December 2013, 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 2014".

The preparation of the condensed consolidated half-year financial statements has required that Management make estimates and assumptions which affect the value of revenue, 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 impairment 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 impairment. 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 revenue 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 2014

The following accounting standards, amendments and interpretations, reviewed also following IASB's annual improvements process, were applied for the first time by the Group starting from 1 January 2014:

- IFRS 10 – *Consolidated Financial Statements* - The standard, issued by the IASB in May 2011, supersedes SIC 12 - *Consolidation: special purpose entities (vehicles)* and parts of IAS 27 – *Consolidated and separate financial statements*, renamed *Separate financial statements.* It sets out the accounting requirements of equity investments in the separate financial statements. The new standard identifies a common control system applicable to all entities, including vehicles. It also provides guidance on determining control when control is difficult to assess. The IASB requires retrospective application from 1° January 2013. The competent EU bodies have completed the approval process of the standard, deferring the date of application to 1 January 2014, allowing however early adoption beginning from 1 January 2013. The Group has determined that the effects of this new standard on the scope of consolidation are irrelevant.
- IFRS 11 – *Joint arrangements* – The standard, issued by the IASB in May 2011, supersedes IAS 31 – *Interests in Joint Ventures* and SIC 13 – *Jointly controlled entities*: *Non-monetary contributions by venturers*. The new standard provides criteria to identify joint arrangements based on the rights and obligations arising from the agreements, rather than on their legal form. It uses only the equity method to account for interests in joint ventures in the consolidated financial statements. Following issue of this standard, IAS 28 – *Investments in associates* was amended to include within its framework, from the effective date of the standard, interests in joint ventures. The IASB requires retrospective application from 1 January 2013. The competent EU bodies have completed the approval process of the standard, deferring the date of application to 1 January 2014, allowing however early adoption beginning from 1 January 2013. The Group has determined that the effects of this new standard on the scope of consolidation are irrelevant.
- IFRS 12 – *Disclosure of interests in other entities* – The standard, issued by the IASB in May 2011, establishes the disclosure of additional information to provide on all types of interests, including those in subsidiaries, joint arrangements, associates, special purpose entities and other unconsolidated structured entities. The IASB requires retrospective application from 1 January 2013. The competent EU bodies have completed the approval process of this standard, deferring the date of application to 1 January 2014, allowing however early adoption beginning from 1 January 2013. The effects of the

adoption of the new standard are limited to disclosure relating to interests in other entities, to provide in the notes to the annual consolidated financial statements.

- IAS 27 (2011) - *Separate financial statements* – Following issue of IFRS 10 in May 2011 the IASB narrowed the scope of application of IAS 27 only to the separate financial statements. The standard specifically governs the accounting treatment of investments in the separate financial statements and is applicable from 1 January 2014.
- IAS 28 (2011) - *Investments in associates and joint ventures* - Following issue of IFRS 11 in May 2011, the IASB amended the existing standard to include in its framework investments in joint ventures, and to govern the reduction of the interest which does not result in ceasing to apply the equity method. The standard is applicable from 1 January 2014. The adoption of this standard by the Cairo Communication Group had no effect on the half-year financial report at 30 June 2014.
- Amendments to IAS 32 – *Financial Instruments: Presentation* – The amendments, issued by the IASB in December 2011, clarify the application of criteria for the offsetting of financial assets and liabilities appearing in IAS 32. The amendments must be applied retrospectively from 1 January 2014. The adoption of this standard by the Cairo Communication Group had no effect on the half-year financial report at 30 June 2014.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition guidance amendments* – On 28 June 2012, the IASB published the amendments to IFRS applicable, together with the relevant standards, from financial periods beginning on or after 1 January 2013, unless applied earlier. The purpose of the document, among other things, is to amend IFRS 10 to clarify how an investor must retrospectively adjust the comparative period if the conclusions on the consolidation are not the same in accordance with IAS 27/SIC 12 and IFRS 10 at the "date of initial application". In addition, the Board also amended IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of interests in other entities* to provide a similar option for the presentation or modification of the comparative information pertaining to the periods prior to the comparative period presented in the financial statements. IFRS 12 was further amended by limiting the request of presenting comparative information for disclosures regarding unconsolidated "structured entities" in periods prior to the date of application of IFRS 12.
- Amendments to IFRS 10, IFRS 12 and IAS 27 – *Investment entities* – The amendment, issued by the IASB in October 2012, integrates IFRS 10 by clarifying the definition of investment entities and consolidation methods. The amendment to IFRS 12 integrates the standard by clarifying the disclosures to provide and the assessments on how to determine investment entities. The amendment to IAS 27 integrates the standard by establishing the disclosures that the investment entity is required to provide if it is also a controlling entity. The adoption of this standard by the Cairo Communication Group had no effect on the half-year financial report at 30 June 2014.

- IAS 36 – *Recoverable amount disclosures on non-financial assets* – The standard, issued by the IASB in May 2013, governs the disclosures to provide on the recoverable amount of impaired assets, if the amount is based on the fair value less costs of disposal. The amendments must be applied retrospectively to financial periods beginning on or after 1 January 2014. Early application is allowed for periods in which the entity has already applied IFRS 13.
- IAS 39 – *Financial instruments: recognition and measurement: "Novation of derivatives and continuation of hedge accounting*" – The standard, issued by the IASB in June 2013, clarifies that the amendments allow continuation of hedge accounting in the circumstance in which the derivative, which has been designated as an hedging instrument, is novated as a consequence of laws or regulations in order to replace the original counterparty to ensure performance of the obligation if certain conditions are met. The same amendment will also be included in IFRS 9 *Financial instruments*. These amendments must be applied retrospectively to financial periods beginning on or after 1 January 2014.
- IFRIC 21 - *Levies*, an interpretation, issued by the IASB in May 2013, of IAS 37 *Provisions, contingent liabilities and contingent assets*. The interpretation provides guidance on when to recognize liabilities for a levy imposed by a government, with the exception of those governed by other standards (i.e. IAS 12 – *Income tax*). IAS 37 establishes the recognition criteria of liabilities, one of which is the existence of a present obligation on an entity resulting from past events (obligating event). The interpretation clarifies that the obligating event that gives rise to liability for payment of a levy is explained by the relevant legislation that gives rise to its payment. IFRIC 21 is applicable according to the IASB to financial years beginning on or after 1 January 2014, or beginning on or after 17 June 2014 according to the EU.

The application of the amendments applied retrospectively had no effect on either the determination of equity or on profit/loss, or on earnings per share.

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

At the date of these condensed consolidated half-year financial statements, the competent EU bodies have yet to complete the approval process required for the adoption of the following standards, amendments and interpretations:

- Improvement to IAS 19 - *Employee benefits* - The amendment, issued by the IASB in November 2013, applies to employee contributions or defined benefit plans. The purpose of the amendments is to simplify the accounting of contributions that are independent of the number of years of service. The amendments are effective as from 1 July 2014; early application is allowed.

- Improvement to IFRS 2010-2012 Cycle - The amendment issued by IASB in December 2013 contains a set of amendments to IFRS (IFRS2, IFRS3, IFRS 8, IFRS13, IAS 16, IAS 24 and IAS 28). These amendments arise from proposals contained in the *Draft Annual Improvements to IFRS 2010-2012 Cycle*, published in May 2012. The amendments are effective as from 1 July 2014; early application is allowed.
- Improvement to IFRS 2011-2013 Cycle - The amendment, issued by the IASB in December 2013, contains a set of amendments to IFRS (IFRS1, IFRS 3, IFRS 13, and IAS 40). These amendments derive from proposals contained in the *Exposure Draft Annual Improvements* to IFRS 2011-2013 Cycle, published in November 2012. The amendments are effective as from 1 July 2014; early application is allowed.
- IFRS 14 *Regulatory Deferral Accounts* – IFRS 14, issued by the IASB in January 2014, allows only those entities which are first-time adopters of IFRS to continue to account rate-regulated activities based on the previous accounting standards adopted. To enhance the comparability with entities which already apply IFRS and which do not account these activities, the standard requires the effect of the rate regulation to be presented separately from other items. The standard is effective from 1 January 2016; early application is allowed.
- Amendments to IFRS 11 – *Joint arrangements:* In May 2014, the IASB issued amendments to IFRS 11 – *Joint arrangements: Recognition of the acquisition of interests in joint operations*, providing clarification on the accounting of the acquisition of interests in joint operations that constitute a business. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2016; early application is allowed.
- Amendment to IAS 16 and IAS 38 *Property, Plant and Equipment* and – *Intangible assets* - The amendment, issued by the IASB in May 2014, aims to clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally assumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. These amendments are effective for annual periods beginning on or after 1 January 2016; early application is allowed.
- IFRS 15 - *Revenue from contracts with customers* - the standard, issued by the IASB in May 2014, replaces specific industry guidance, and requires issuers from all industries and countries to use a new five-step model framework to recognize revenue from contracts with customers. The standard is applicable for annual periods beginning after 15 December 2016, and requires full or limited retrospective application.

The Group will adopt these new standards, amendments and interpretations, based on the date of planned application, and will evaluate the potential impacts on approval by the European Union.

Form and content of the financial statements

The **consolidated income statement** is presented by nature, highlighting interim operating results and pre-tax results, and in order to allow a better measure of ordinary operating management performance. Furthermore, cost and revenue components deriving from events or transactions which, by their nature or size are considered non-recurring, are also separately identified in the notes, according to the definition held in Consob Communication n. 6064293 of 28 July 2006.

The economic effects of discontinued operations are presented in a single line item in the income statement called "Profit / (loss) from discontinued operations", under IFRS 5.

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

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

The consolidated statement of comprehensive income presents items related to the amounts of other components of comprehensive income for the period by nature and grouped in those that, in accordance with the provisions of other IAS/IFRS:

- will not be subsequently reclassified to profit (loss) for the year;
- will be subsequently reclassified to profit (loss) for the year, when certain conditions are met.

In the 1H13 income statement shown for comparative purposes, the income statement item called "non-recurring income from the acquisition of La7 S.r.l." refers to the economic effects arising from the acquisition of the equity interest in La7 S.r.l., as explained in Note 10. It should be noted that during 2013, in light of further information available, "non-recurring income from the acquisition of La7" which, in the half-year report at 30 June 2013 had been initially recognized for an amount of Euro 54,712 thousand, was retrospectively adjusted to Euro 57,066 thousand - as shown in the financial statements of this Report - due to (i) the price adjustment of Euro 4,800 thousand agreed between Cairo Communication and Telecom Italia Media and (ii) a reduction of Euro 7,154 thousand in the funds initially recognized as a result of the fair value measurement of assets acquired and liabilities assumed.

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

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

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

The **consolidated cash flow statement** has been prepared applying the indirect method in which operating performance is adjusted to reflect transactions of a non-monetary nature, for whatever deferral or accrual of previous or future operating receipts or payments and for revenue or cost components connected to cash flows arising from investing or financing activities. Income and expense relating to medium or long-term financial operations and those relating to hedging instruments, and dividends paid are included in financing activities.

The **statement of changes in consolidated equity** shows the variations in equity relating to:

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

and separately income and expense defined as "*changes arising from transactions with non-owners*", also shown in the consolidated statement of comprehensive income.

Furthermore in order to comply with Consob Resolution No. 15519 of 27 July 2006 relating to financial statements schedules, specific additional consolidated income statement, consolidated statement of financial position and consolidated cash flow statement have been added highlighting significant related-party transactions in order not to compromise the overall readability of financial statements schedules.

<u>Scope of consolidation</u>

In 2014, the subsidiary Cairo Network S.r.l. (former Cairo Sport S.r.l) was consolidated. Its financial statements had not been previously consolidated, as the company was not significant because it was not operational.

As explained in the half-year report at 30 June 2014, in April 2014 Cairo Network S.r.l. submitted an application to the Ministry of Economic Development to take part in the tender procedure for the assignment of rights to use TV frequencies for digital terrestrial broadcasting systems (resolution no. 277/13/CONS of 11 April 2013 of the Italian Communications Authority - the call for tender published in the State Gazette of the Italian Republic on 12 February 2014). Specifically, the application was submitted to bid for the rights of use of the lot referred to as Lot L3, which has an estimated nominal coverage of 96.6% of the population and a starting price of Euro 31.6 million. In June 2014, Cairo Network S.r.l. then presented its binding bid and won the frequencies.

There were no other changes to the scope of consolidation from the consolidated financial statements for the year ended 31 December 2013.

The condensed half-year financial statements at 30 June 2014 include the financial statements of the parent Cairo Communication S.p.A. and the following direct or indirect subsidiaries:

Company	Head office	Quota capital at 30/06/14	% of investment	Reporting date	Business	Consolidation method
Cairo Communication S.p.A.	Milan	4,074		31/12	Advertising	Full
Cairo Editore S.p.A.	Milan	1,043	99.95	31/12	Publishing	Full
Cairo Pubblicità S.p.A.	Milan	2,818	100	31/12	Advertising	Full
La7 S.r.l.	Rome	1,020	100	31/12	TV publishing	Full from 30 April 2013
Diellesei S.r.l. in liquidation	Milan	10	60	31/12	In liquidation	Full for assets and liabilities (*)
Cairo Network S.r.l.	Milan	20	100	31/12	Internet	Full
Cairo Publishing S.r.l.	Milan	10	100	31/12	Publishing	Full
Il Trovatore S.r.l.	Milan	25	80	31/12	Internet	Full
Edizioni Anabasi S.r.l.	Milan	10	99.95	31/12	Publishing	Full

(*) the income statement is consolidated on a single line in 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 ended 30 June 2014.

For a clearer understanding of the comparative figures, mention must be made that the 1H13 income statement included cost and revenue only of the May-June two-month period of La7 S.r.l..

1. Net revenue

In order to provide a more detailed view, and in consideration of the specific features of the sector, gross operating revenue, advertising agency discounts and net operating revenue are analyzed as follows:

	Half year at 30/06/2014	Half year at 30/06/2013
Gross operating revenue	137,194	140,549
Advertising agency discounts	(13,829)	(14,534)
Net operating revenue	**123,365**	**126,015**

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

Gross operating revenue can be analyzed as follows:

Description	**Half year at 30/06/2014**	**Half year at 30/06/2013**
TV advertising	83,577	85,250
Print media advertising	14,035	14,538
Stadium signage	1,159	1,342
Internet advertising	528	105
Revenue from sale of programming schedule space	521	1,516
Other TV revenue	1,298	622
Magazine sales	34,849	35,965
Subscriptions	1,460	1,520
Other revenue	50	51
Books and catalogues	330	248
VAT relating to publications	(613)	(608)
Total gross operating revenue	**137,194**	**140,549**

The consolidation of La7 S.r.l. for the entire six months (with respect to the May-June two-month period of 2013 included in the same period of the prior year) brought no significant change to revenue, since over 90% of La7 S.r.l. revenue comes from advertising sales generated by Cairo Communication under the advertising concession contract in effect before the acquisition of the company.

In 1H14:

- the excellent circulation results were confirmed, with revenue of Euro 34.8 million versus Euro 35.9 million in 1H13;
- TV advertising revenue (from La7, La7d, theme channels Cartoon Network, Boomerang, and CNN), totaling Euro 83.6 million, dropped by 2% versus 1H13 (*ACNielsen* +1.3% the TV advertising market in the January-June six-month period of 2014 versus the same period of the prior year). Specifically, advertising revenue on La7 and La7d channels, totaling Euro 82.4 million, basically confirmed the figure in 1H13;
- Group gross print advertising revenue, which reached Euro 14 million, dropped by 3.5% versus 1H13 (*AC Nielsen* -11% the magazine advertising market in the January-June six-month period of 2014 versus the same period of the prior year). Specifically, in 2Q14, gross advertising revenue from

Group publications, amounting to Euro 8.7 million, grew by 1% versus 2Q13, reporting a strong reversal versus the trend seen over the past few years.

"Operating revenue" also includes the consideration of Euro 50 thousand from Torino Football Club S.p.A., a subsidiary of UT Communications - parent of Cairo Communication S.p.A. - for administrative services provided, disclosed in Note 25 on related-party transactions.

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2. Other revenue and income

"Other revenue and income", amounting to Euro 5,042 thousand (Euro 2,896 thousand at 30 June 2013), is mainly ascribable to revenue from waste paper pulping and sale, contingent assets, technical advertising recharges and other revenue not considered operating revenue. The increase versus 2013 is due mainly to the consolidation for the entire six months of La7, which generated in 1H14 other revenue and income of Euro 3,697 thousand (Euro 280 thousand at 30 June 2013).

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3. Change in inventory of finished products

The item, amounting to Euro -35 thousand (Euro -77 thousand at 30 June 2013) arises from the ordinary use of items sold by Cairo Editore and Cairo Publishing.

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4. Raw materials, consumables and supplies

Raw materials, consumables and supplies refer mainly to the activities of Cairo Editore, Cairo Publishing and La7 and include mainly the following items:

Description	**Half year at 30/06/2014**	**Half year at 30/06/2013**
Paper	10,795	12,249
Scenic material	71	32
Equipment and sundry materials	254	277
Change in inventory of paper, equipment, TV programmes and the like	604	1,723
Total raw materials, consumables and supplies	**11,724**	**14,281**

Change in inventory, amounting to Euro 604 thousand, refers to:

- Euro 81 thousand for the change in inventory of TV programmes produced in-house by La7 S.r.l. or acquired from third parties and not yet aired, to rights on films, soaps and the like and related ancillary costs with a duration of less than 12 months and not yet aired;

- Euro 523 thousand for the change in inventory of paper and other consumables of Cairo Editore S.p.A.

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5. Services

As shown in the following chart, this item mainly comprises advertising concessionaire direct costs, external processing, consultancies and collaborations mainly for bordereau, TV costs, promotion costs, organization costs and overheads, broken down as follows:

Description	Half year at 30/06/2014	Half year at 30/06/2013
Direct brokerage costs	6,624	43,364
Technical costs	319	205
Consultancies and collaborations	7,188	9,108
External processing	8,268	8,511
TV programmes under contract	8,830	2,437
Professional and artistic services, and other TV consultancies	5,773	1,560
Shooting, crews, editing of location filming	1,300	601
News and sports information services and TV news agency	969	525
TV broadcasting services	6,108	1,618
TV graphical work	291	137
TV location links	279	233
Advertising and promotion	2,776	2,962
Advertising and launch promotion costs	-	965
Organization costs and overheads	7,442	4,164
Total services	**56,167**	**76,390**

The reduction in costs for services is due mainly to the decrease versus the half-year period ended 30 June 2013 of "direct brokerage costs," which include publishers’ fees and agents’ commissions. The decrease is related to the consolidation of La7 S.r.l. for the entire half-year period (with respect to the May-June two-month period of 2013 included in the same period of the prior year) and to the resulting reversal of intra-group publishers’ fees, replaced by the direct costs incurred by La7. The consolidation also produced an increase in costs for TV services, costs for leased assets and personnel costs, as described below.

The increase versus the half-year period ended 30 June 2013 in "production of TV programmes under contract", "professional and artistic services, and other TV consultancies” "costs for shooting, editing and location filming", "news and sports information services and TV news agency", "TV broadcasting services”, “graphical work", and "TV location links" is due to the fact that the income statement for the first half of 2013 included costs of La7 S.r.l. only for the May-June two-month period.

“Publishers’ fees” also include Euro 924 thousand of Torino Football Club S.p.A., a subsidiary of U.T. Communications S.p.A., under the advertising concession agreement with Cairo Pubblicità S.p.A. as explained in Note 25 to related-party transactions.

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6. Use of third-party assets

The item amounts to Euro 12,599 thousand at 30 June 2014 (Euro 5,975 thousand at 30 June 2013) and includes mainly lease payments for property, rental and hire fees in the TV segment, rental fees for TV studio equipment and royalties for copyrights.

Description	Half year at 30/06/2014	Half year at 30/06/2013
Lease payments for property	1,855	2,374
Rental of TV studios	444	263
Rental fees for TV studio equipment	1,135	420
TV programme rights	4,911	2,359
Sports rights	43	246
Journalistic rights	1,347	242
Other copyrights (SIAE, IMAIE, SCF, AFI)	2,091	623
Royalty expense and sundry rights	410	129
Other costs for use of third-party assets	363	319
Total services	**12,599**	**5,975**

The increase versus 30 June 2013 of “rental of TV studios”, “rental fees for TV studio equipment” “TV programme rights”, “journalistic rights”, “other copyrights (SIAE, IMAIE, SCF, AFI)” and “royalty expense and sundry rights”, is due to the fact that the income statement in 1H13 included the costs of La7 S.r.l., which entered the Group’s scope of consolidation on 1 May 2013, only for the May-June two-month period.

7. Personnel expense

The item can be analyzed as follows:

Description	Half year at 30/06/2014	Half year at 30/06/2013
Wages and salaries	22,443	13,810
Social security contributions	7,391	4,192
Post-employment benefits	524	539
Other costs	678	493
Total personnel expense	**31,036**	**19,034**

The increase in “personnel expense” is also attributable mainly to the consolidation of La7 S.r.l. for the entire six months (with respect to only the May-June two-month period of 2013 included in the same period of the prior year). In 1H14, total “personnel expense” of La7 S.r.l. amounted to Euro 18,035 thousand (Euro 6,416 thousand in the May-June two-month period of 2013).

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8. Amortization, depreciation, provisions and impairment losses

This item can be analyzed as follows:

Description	Half year at 30/06/2014	Half year at 30/06/2013
Amortization of intangible assets and depreciation of property, plant and equipment	1,292	430
Increase in provisions for bad debts	523	831
Other provisions	210	317
Total amortization, depreciation, provisions and impairment losses	**2,025**	**1,578**

It should be noted that, as a result of impairments made in the allocation of the purchase price of the investment in La7 S.r.l., explained in Note 10, in the consolidated financial statements, with respect to the separate financial statements of La7 S.r.l., lower levels of depreciation of "property, plant and equipment" - Euro 1,545 thousand - and amortization of intangible assets - Euro 10,898 thousand – were recognized in 1H14.

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9. Other operating costs

Other operating costs, amounting to Euro 863 thousand (Euro 625 thousand at 30 June 2013), relate mainly to sundry tax and contingent liabilities.

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10. Non-recurring income from the acquisition of La7 S.r.l.

At 30 June 2013, the item amounted to Euro 57,066 thousand and referred to the excess of the "fair value" of assets acquired and liabilities assumed of La7 S.r.l. at the acquisition date (30 April 2013) over the purchase price paid. The acquisition was accounted for under IFRS 3, applying the "acquisition method", considering the future profit-generating capacity of La7 S.r.l. at the acquisition date.

This approach determined:

- the full write-down of non-current assets of La7 at the acquisition date, consisting primarily of TV broadcasting rights, and specific technical equipment, whose value was deemed unrecoverable in view of the income prospects of the acquired company at the acquisition date. This resulted in the full write-down of these assets for a total of Euro 53,124 thousand;
- the recognition of “provisions for future risks and charges” of Euro 21,389 thousand, regarding certain contracts whose non-discretionary costs to fulfill obligations exceeded the assumed economic benefits, and specific risk situations related to existing and/or performed contracts and pending litigation.

Based on the income prospects of the subsidiary La7 S.r.l. at the acquisition date and the related uncertainty, the purchase price allocation had not taken account of any tax effect.

IFRS 3 provides for a period of twelve months from the acquisition date for completion of the fair value measurement of assets acquired and liabilities assumed. It should be noted that during the second half of 2013, in light of further information available, “non-recurring income from the acquisition of La7” was retrospectively adjusted from Euro 54,712 thousand to Euro 57,066 thousand as a result of:

- the adjustment of the price of Euro 4,800 thousand agreed between Cairo Communication and Telecom Italia Media;
- a reduction of Euro 7,154 thousand in the provisions initially recognized as a result of the fair value measurement of assets and liabilities acquired.

As shown in the cash flow statement, in 2013 the acquisition of La7 S.r.l. generated an increase in consolidated cash of Euro 109.2 million, the difference between net cash acquired (Euro 115 million) and the acquisition price paid inclusive of the price adjustment of Euro 4.8 million agreed between Cairo Communication and Telecom Italia Media (Euro 5.8 million).

As explained further in Note 35, under the contract to acquire the entire share capital of La7, for a period of 24 months following acquisition, Cairo Communication undertakes to use the financial resources resulting from the contribution received from Telecom Italia Media in the exclusive interest of La7 and to restructure the company, and to not distribute dividends or reserves of La7.

The valuations made through the acquisition method resulted in a positive effect on the consolidated income statement at 30 June 2014, consisting of lower depreciation and amortization totaling Euro 12.4 million.

11. Net financial income

"Net financial income" is composed as follows:

Description	Half year at 30/06/2014	Half year at 30/06/2013
Financial income	1,455	1,560
Financial expense	(248)	(180)
Total	**1,207**	**1,380**

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

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12. Income tax

The item can be analyzed as follows:

Description	Half year at 30/06/2014	Half year at 30/06/2013
IRES	(1,416)	3,330
IRAP	737	912
Deferred tax income	1,330	187
Total income tax	**651**	**4,429**

Estimated tax for the period takes into account the benefit arising from the formation of tax loss from La7 S.r.l.

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13. Loss from discontinued operations

This includes the net loss of the subsidiary Diellesei S.r.l. in liquidation, whose impact on the Group's income statement, statement of financial position and cash is irrelevant

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14. Segment reporting

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

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

- **magazine 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' e DIPIU'TV Cucina e Stellare", "Nuovo", "F", "Settimanale Giallo" and monthlies "For Men Magazine", "Natural Style", Bell'Italia", "Bell'Europa", "In Viaggio", "Airone", "Gardenia", "Arte" and "Antiquariato" – and Cairo Publishing, publisher of books;

- **advertising**, managed by Cairo Communication and Cairo Pubblicità, which work together in advertising sales in print media for Cairo Editore and Editoriale Genesis ("Prima Comunicazione"), on TV for La7 and La7d and Turner Broadcasting (Cartoon Network, Boomerang, CNN), on the Internet and for the sale of stadium advertising spaces at the "Olimpico" football pitch in Turin for Torino FC;
- **TV publishing (La7),** as mentioned earlier, starting from 1 May 2013, with the acquisition of La7 S.r.l., the Group operates as a TV publisher through La7 and La7d broadcasters respectively on channels 7 and 29 of the digital terrestrial platform;
- **Il Trovatore,** which manages its own search engine and provides technological services mainly within the Group.

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

2014 (Half year) (€ thousands)	Magazine publishing	Advertising	TV publishing La7		Trovatore	Unallocated operation	Intra-group	Total
			Current operations	Non-recurring items				
Gross operating revenue	46,543	96,738	59,361	-	431		(65,879)	137,194
Advertising agency discounts	-	(13,829)	-	-	-		-	(13,829)
Net operating revenue	**46,543**	**82,909**	**59,361**	**-**	**431**		**(65,879)**	**123,365**
Change in inventory	(35)	-	-	-	-		-	(35)
Other income	864	481	3,697	-	-		-	5,042
Total revenue	**47,372**	**83,390**	**63,058**	**-**	**431**		**(65,879)**	**128,372**
Production cost	(31,437)	(75,287)	(40,155)	-	(353)		65,879	(81,353)
Personnel expense	(9,667)	(3,316)	(18,035)	-	(18)		-	(31,036)
Gross operating profit (EBITDA)	**6,268**	**4,787**	**4,868**	**-**	**60**		**-**	**15,983**
Amortization, depreciation, provisions and impairment losses	(542)	(606)	(877)	-	-		-	(2,025)
Operating profit (EBIT)	**5,726**	**4,181**	**3,991**	**-**	**60**		**-**	**13,958**
Income / (loss) on investments	-	(1)	-	-	-		-	(1)
Net financial income	17	325	865	-	-		-	1,207
Non-recurring income from acquisition of La7 S.r.l.	-	-	-	-	-		-	-
Pre-tax profit	**5,743**	**4,505**	**4,856**	**-**	**60**		**-**	**15,164**
Income tax	(2,063)	(1,537)	2,970	-	(21)		-	(651)
Non-controlling interests	-	-	-		(8)		-	(8)
Profit from continuing operations attributable to the owners of the parent	**3,680**	**2,968**	**7,826**	**-**	**31**		**-**	**14,505**
Profit / (loss) from discontinued operations	-	-	-	-	-		-	-
Profit	**3,680**	**2,968**	**7,826**	**-**	**31**		**-**	**14,505**

2013 (Half year) (€ thousands)	Magazine publishing	Advertising	TV publishing La7 (*)		Trovato-re	Unallocated operation	Intra-group	Total
			Current operations	Non-recurring items				
Gross operating revenue	48,038	101,224	22,228	-	184	-	(31,125)	140,549
Advertising agency discounts	-	(14,534)	-	-	-	-		(14,534)
Net operating revenue	**48,038**	**86,690**	**22,228**	**-**	**184**	**-**	**(31,125)**	**126,015**
Change in inventory	(77)	-	-	-	-	-	-	(77)
Other income	1,467	3,752	281	-	-	-	(2,604)	2,896
Total revenue	**49,428**	**90,442**	**22,509**	**-**	**184**	**-**	**(33,729)**	**128,834**
Production cost	(35,076)	(80,060)	(15,698)	(1,917)	(166)	-	33,729	(99,188)
Personnel expense	(9,718)	(2,883)	(6,416)	-	(17)	-	-	(19,034)
Gross operating profit (EBITDA)	**4,634**	**7,499**	**395**	**(1,917)**	**1**	**-**	**-**	**10,612**
Amortization, depreciation, provisions and impairment losses	(569)	(585)	(424)	-	-	-	-	(1,578)
Operating profit (EBIT)	**4,065**	**6,914**	**(29)**	**(1,917)**	**1**	**-**	**-**	**9,034**
Income / (loss) on investments	-	563	-	-	-	-	-	563
Net financial income	20	830	531	-	(1)	-	-	1,380
Non-recurring income from acquisition of La7 S.r.l.	-	-	-	57,066	-	-	-	57,066
Pre-tax profit	**4,085**	**8,307**	**502**	**55,149**	**-**	**-**	**-**	**68,043**
Income tax	(1,589)	(2,838)	-	-	(2)	-	-	(4,429)
Non-controlling interests	-	-	-	-	-	-	-	-
Profit from continuing operations attributable to the owners of the parent	**2,496**	**5,469**	**502**	**55,149**	**(2)**	**-**	**-**	**63,614**
Profit / (loss) from discontinued operations	-	-	-	-	-	-	-	-
Profit	**2,496**	**5,469**	**502**	**55,149**	**(2)**	**-**	**-**	**63,614**

(*) The amounts shown for the “TV publishing” segment refer to the two-month period from 1 May 2013 to 30 June 2013

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

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

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15. Earnings per share

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

Earnings per share are calculated by dividing the Group's profit/loss by the weighted average number of outstanding shares, excluding the weighted average number of treasury shares held. Specifically:

Description	**Half year at 30/06/2014**	**Half year at 30/06/2013**
€ thousands:		
Profit from continuing operations	14,513	61,260
Profit / (loss) from discontinued operations	-	-
Profit for the period (€ thousands)	**14,513**	**61,260**
Weighted average number of outstanding shares	78,343,400	78,343,400
Weighted average number of treasury shares	(779)	(343,279)
Weighted average number of shares used in the calculation of earnings per share	**78,342,621**	**78,000,121**
Euro:		
Earnings per share attributable to continuing operations	0.185	0.785
Earnings / (loss) per share attributable to discontinued operations	0.000	0.000
Net earnings per share	**0.185**	**0.785**

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets and liabilities are analyzed by category in the following notes.

16. Property, plant and equipment

The movements in PPE can be analyzed as follows:

Description	Property	Plant and equipment	Other assets	Assets under constr.	Total
Carrying amounts at 31/12/2013	**1,324**	**195**	**1,310**	**-**	**2,829**
Additions	-	29	88	-	117
Depreciation	(28)	(27)	(156)	-	(211)
Carrying amounts at 30/06/2014	**1,296**	**197**	**1,242**	**-**	**2,735**

In 1H14, due to the impairment of fixed assets made in 2013 in the allocation of the purchase price of the investment in La7 S.r.l. explained in Note 10, in the consolidated financial statements, with respect to the separate financial statements of La7 S.r.l., lower depreciation of Euro 1,545 thousand was recognized on "property, plant and equipment".

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17. Intangible assets

The movements in intangible assets can be analyzed as follows:

Description	TV rights	Concessions, licenses and trademarks	Goodwill	Titles	Assets under constr.	Total
Carrying amount at 31/12/2013	**992**	**1,087**	**7,198**	**1,277**	**2,432**	**12,986**
Additions	3,676	424	-	-	(17)	4,083
Amortization	(710)	(240)	-	(132)	-	(1,082)
Carrying amount at 30/06/2014	**3,958**	**1,271**	**7,198**	**1,145**	**2,415**	**15,987**

In 1H14, due to the impairment of intangible assets made in 2013 in the allocation of the purchase price of the investment in La7 S.r.l. explained in Note 10, in the consolidated financial statements, with respect to the separate financial statements of La7 S.r.l., lower amortization of Euro 10,898 thousand was recognized on “intangible assets”.

Goodwill

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

The movements in this item for each of the cash generating units (CGU), which the Group has identified for the business segments in which it operates, are as follows: approximately Euro 4.7 million for publishing, approximately Euro 2.3 million for advertising and approximately Euro 0.2 million for Il Trovatore.

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

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18. Investments and non-current financial assets

The movements in this item can be analyzed as follows:

Description (€ thousands)	**Carrying amount at 31/12/2013**	**Write-up**	**Write-down**	**Carrying amount at 30/06/2014**
Cairo Network S.r.l.	10	30	(40)	0
Total subsidiaries	**10**	**30**	**(40)**	**0**
Auditel S.r.l.	46	-	-	46
Other	16	-	-	16
Total other	**62**	-	-	62
Total	**72**	**30**	**(40)**	**62**

In 1H14, the subsidiary Cairo Network S.r.l. (former Cairo Sport S.r.l.), previously measured at cost, which did not differ much from the amount calculated using the equity method, was consolidated.

Other non-current financial assets amounted to Euro 416 thousand at 30 June 2014 (Euro 483 thousand at 31 December 2013) and consist mainly of loans to employees.

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19. Deferred tax assets

Deferred tax assets, amounting to Euro 3,206 thousand at 30 June 2014 (Euro 4,589 thousand at 31 December 2013) refer to the recognition of deferred tax assets on the temporary differences between the carrying amounts of recognized assets and liabilities and their tax amounts.

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20. Working capital

Working capital can be analyzed as follows:

Description	30/06/2014	31/12/2013	Change
Inventory	3,464	4,104	(640)
Trade receivables	86,863	90,065	(3,202)
Receivables from parents	7,685	5,583	2,102
Other receivables and other current assets	6,863	8,369	(1,506)
Trade payables	(93,941)	(105,926)	11,985
Payables to parents	(333)	(11)	(322)
Tax liabilities	(3,203)	(3,752)	549
Other current liabilities	(18,208)	(20,822)	2,614
Total working capital	**(10,810)**	**(22,390)**	**11,580**

Inventory is composed of:

- Euro 3,327 thousand, relating to inventory of Cairo Editore S.p.A. and Cairo Publishing S.r.l. of raw materials, mainly paper, work in progress and finished products, mainly books. Inventory is stated net of the provision for inventory write-down of Euro 734 thousand (Euro 1,032 thousand at 31 December 2013);
- Euro 137 thousand, relating to inventory of La7 S.r.l. for TV programmes produced and awaiting to be aired at 30 June 2014 and for rights on films, soaps, cartoons and documentaries, acquired for a period of less than 12 months, whose available right has not yet exhausted and for which airing time during the next financial year is available.

Trade receivables are stated net of the allowance for impairment of Euro 10,084 thousand (Euro 14,710 thousand at 31 December 2013). The allowance increased over the period by Euro 523 thousand and decreased following utilization of Euro 5,149 thousand. The allowance takes account of both specific collection risks and a general risk of non-collectability based on the ordinary trend of company operations.

Parent receivables and payables, amounting respectively to Euro 7,685 thousand and to Euro 333 thousand, refer mainly to receivables from (Euro 7,624 thousand) and payables to (Euro 333 thousand) the parent U.T. Communications S.p.A. arising from the national tax consolidation scheme which Cairo Communication and its subsidiaries Cairo Editore, Cairo Pubblicità, Diellesei in liquidation, Cairo Due and Cairo Publishing have agreed to participate in, as explained in Note 25 on related -party transactions.

Other receivables and other current assets, which include mainly tax credit, inclusive of advance payments and prepayments and accrued income, amounted to Euro 6,863 thousand, decreasing by Euro 1,506 thousand versus 31 December 2013.

Trade payables amounted to Euro 93,941 thousand, decreasing by Euro 11,985 thousand versus 31 December 2013 and refer entirely to current payables.

Other current liabilities, amounting to Euro 18,208 thousand at 30 June 2014 and decreasing by Euro 2,614 thousand versus 31 December 2013, include mainly advance payments received from clients for new magazine subscriptions, payables to personnel for holiday pay and salary accruals and accrued expenses and deferred income.

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

Post-employment benefits

The provision for post-employment benefits reflects allocations for all staff employed at the reporting date made on the basis of the application of the projected unit credit based on actuarial valuations.

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

	30/06/2014	31/12/2013
Opening balance	**11,832**	**4,086**
Changes to the scope of consolidation	-	7,181
Increase in provisions	56	1,102
Interest expense	176	370
Loss (profit) from actuarial evaluations	717	127
Utilization/other movements	(264)	(1,364)
Closing balance	**12,517**	**11,832**

At 30 June 2014, post-employment benefits attributable to La7 S.r.l. amounted to Euro 8,022 thousand.

Provisions for risks and charges

The provisions for risks and charges include:

Description	31/12/2013	Increases	Utilizations	30/06/2014
Provision for retirement and kindred outlays	1,197	-	-	1,197
Provision for publishing returns	421	-	(124)	297
Provision for liquidation expenses	64	-	-	64
Provisions for future risks and charges recognized in the purchase price allocation of La7 S.r.l.	21,389	-	(108)	21,281
Provisions for other risks and charges	11,911	-	(701)	11,210
Total	**34,982**	**-**	**(933)**	**34,049**

The item "provisions for risks and charges", amounting to Euro 34,049 thousand, includes mainly provisions for future risks and charges of La7 related to pending litigation with social security institutions, temporary staff and employees. It also includes funds for future expenses allocated to cover the risk arising from claims for damages originating in the production and broadcasting of TV programmes.

As mentioned earlier, in 2013, in the purchase price allocation of La7 S.r.l., a negative fair value of Euro 21,389 thousand was given to:

a) certain contracts whose non-discretionary costs to fulfill obligations exceed the assumed economic benefits;
b) specific risk situations related to (i) existing or performed contracts and (ii) to pending litigation.

22. Net financial position

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

Description	30/06/14	31/12/13	Change
Cash and cash equivalents	152,506	172,915	(20,409)
Financial liabilities	-	--	-
Total	**152,506**	**172,915**	**(20,409)**

Cash attributable to La7 S.r.l. at 30 June 2014 amounted to Euro 121,011 thousand (Euro 115,799 thousand at 31 December 2013) versus a negative net working capital of approximately Euro 16,364 thousand (a negative Euro 15,933 thousand at 31 December 2013). Under the contract to acquire the entire share capital of La7, for a period of 24 months following acquisition, Cairo Communication undertakes to use the financial resources resulting from the contribution received from Telecom Italia Media in the exclusive interest of La7 and to restructure the company, and to not distribute dividends or reserves of La7 S.r.l.

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 counterparts are selected on the basis of their credit rating, their reliability and the quality of the service rendered.

23. Consolidated equity

At 30 June 2014, consolidated equity was Euro 117,516 thousand, including profit for the period.

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

At their meeting on 29 April 2014, the shareholders resolved to distribute a dividend of 0.27 Euro per share, inclusive of tax. The balance of the dividend, amounting to Euro 21.2 million, was distributed with detachment date on 12 May 2014 (made payable on 15 May 2014).

In 2014, as part of the share buy-back plans, no treasury shares were bought or sold. At 30 June 2014, Cairo Communication held n. 779 remaining treasury shares, subject to art. 2357-ter of the Italian Civil Code.

24. Other information

Main guarantees furnished by third parties to the Cairo Communication Group amounted to Euro 327 thousand and refer to bank security.

The agreements to acquire the entire share capital of La7 S.r.l. also include a multi-year agreement between La7 and Telecom Italia Media Broadcasting S.r.l. (TIMB) for the supply of transmission capacity, that provides, among other things, the issue by Cairo Communication of a parent company guarantee to cover the payment obligations undertaken by La7, for a maximum amount of Euro 3,995 thousand (including VAT) until 31 December 2013, and Euro 6,558 thousand (including VAT) per year effective as from 1 January 2014.

The contract, signed on 6 March 2013 with Telecom Italia Media for the acquisition of the entire share capital of La7 S.r.l., also provides for:

- the buyer’s commitment, for a period of 24 months (lock-up) from the date of finalization of the acquisition, not to sell, assign, transfer, dispose of in any way, in whole or in part, the investment in La7, or the business unit owning La7, without prejudice to the buyer’s right, including during lock-up, to:
    - undertake a transfer or assignment to entities wholly-owned, whether directly or through other companies wholly-owned by Cairo Communication;

- merge La7 and Cairo Due S.r.l., provided the latter, at the effective date of the merger, does not have a negative net financial position in excess of Euro 1,020 thousand
- constitute real rights of guarantee in favour of the lending banks on the shares of La7;
- undertake, under certain conditions, a proportional demerger of the group.

The lock-up commitments are accompanied by a penalty clause of the amount of Euro 20 million.

- Cairo Communication's commitment, for a period of 24 months from the date of finalization of the acquisition, to use the financial resources arising from the contribution received from Telecom Italia Media in the exclusive interest and for the restructuring of La7, and the related prohibition to engage in certain transactions specified in the contract, including of an extraordinary kind, aimed at depriving La7 of the resources from the contribution to the benefit of third parties or related parties, or to make new investments

This commitment, as the above, is accompanied by a penalty clause, the amount of which varies depending on the transaction.

On 12 April 2014, the subsidiary Cairo Network S.r.l. (former Cairo Sport S.r.l.) applied for admission to bid in the auction opened by the Ministry of Economic Development for the awarding of the so-called L3 Lot, put up for tender with a starting price of Euro 31.6 million. This lot includes the assignment of rights to use - for a period of 20 years - the 2-SFN multiplex on channels 25 and 59 ("Mux"). The L3 Lot frequencies have an estimated nominal coverage of 96.6% of the population. On 15 May 2014, the Ministry of Economic Development announced the admission of Cairo Network to the tender. On 13 June 2014, the Company submitted its binding bid and won the rights. The award was announced on 26 June 2014. On 25 July 2014, Cairo Network paid the amount offered in its bid (Euro 31.6 million), using own funds of Euro 6.6 million (arising from a capital increase of Euro 5.5 million and a shareholder loan of Euro 1.1 million) and by means of a bank loan of Euro 25 million granted by Unicredit S.p.A.. The loan is secured by a guarantee issued by the parent Cairo Communication, and calls for the payment of an interest rate equal to the 3-month Euribor plus 225 basis points and certain constraints (negative pledges) and commitments (covenants) on the part of the company, which are typical of these transactions. On 31 July 2014, the Ministry of Economic Development issued the rights of use.

With regard to the Automatic Numbering Plan, the numbers currently in use (7 for La7 and 29 for La7d) are those assigned by the Ministry of Economic Development in 2010, under AGCOM resolution 366/2010/CONS. The Resolution had been challenged by Telenorba and other local broadcasters, with partial annulment specifically regarding the assignment of numbers 7-8 and 9 by the Council of State through Ruling 4660/12.

On 21 March 2013, the Communications Authority (AGCOM) unanimously approved the New Automatic Numbering Plan for digital terrestrial television (LCN) by Decision 237/13/CONS. The decision confirmed, for national generalist broadcasters, the assignment of numbers 0-9 of the first block of LCN numbering (see p. 39-40 and 44 of AGCOM Decision no. 237/13/CONS).

Deeming that the New Plan evaded the Council of State's ruling (seeing that it confirmed assignment to the national generalist broadcasters of numbers 0-9 in the first block of LCN numbering), Telenorba filed an appeal for compliance with ruling n. 4660/12. The appeal was upheld by the Council of State (ruling no. 6021 of 16 December 2013), which declared the New Numbering Plan void (pursuant to Resolution 237/2013) for numbers from 8 to 9, and appointed a Special Commissioner tasked with verifying the correct assignment of numbers from 8 to 9 within 90 days from the beginning of the proceedings, which started on 24 February 2014. However, since the partial annulment of the previous Plan initially included number 7, on initiation of the procedure, the Special Commissioner - inappropriately in the opinion of La7 - also referred to number 7, which instead, under the Ruling, is not subject to verification by the Commissioner.

AGCOM has in the meantime re-extended the previous Plan (based on current assignments), as also suggested in the State Council's ruling, in order to avoid a regulatory void.

In execution of ruling no. 6021, the Special Commissioner launched a public consultation on an outline provision named "Automatic numbering plan of digital terrestrial free-to-air and pay TV channels, procedures for allocating numbers to providers of audiovisual services authorized to broadcast audiovisual content using digital terrestrial technology and relating conditions of use." This outline plan, subject to public consultation, provides for the allocation of numbers 7 and 8 LCN to national generalist broadcasters.

MTV and AGCOM appealed for revision - with a request for precautionary measure - against ruling n. 6021 of 2014 by the Council of State. Should it be upheld, the appeal could definitively rebut the acts adopted by the Special Commissioner. Through orders no. 1551 and 1552 of 2014, the Council of State upheld the precautionary motions, suspending the effectiveness of the ruling and the acts adopted by the Special Commissioner. The orders were confirmed by the Council of State with two other orders (no. 2660 and 2661 of 2014) delivered in the appeal filed by Telenorba for their withdrawal.

On 17 July 2014, the discussion was held on the merits of the appeals for revision brought by MTV and AGCOM. The Council of State has postponed its decision on the appeals, pending the ruling by the administrative court. Following such decision (which, as mentioned, could definitively rebut the acts adopted by the Special Commissioner), the Council of State will consider the application for an enforcement review filed by Telenorba and the complaint by All Music against the acts by the Special Commissioner.

As the result of a VAT audit performed on Cairo Communication S.p.A., in its report, the Guardia di Finanza (the Italian Tax Police) identified some findings for 2002 and subsequent years (2003, 2004, 2005 and 2006) relating to the application if any of VAT on dealing rights charged to media centres, which were subsequently included in the final audit reports issued in January 2008 (for 2002), in June 2008 (for 2003, 2004 and 2005) and on 24 November 2011 (for 2006), which the company has challenged. (2003, 2004, 2005 and 2006). The hearing for oral arguments was held on 23 May 2014. To date, the relating decision has yet to be filed. For all the periods in question (2002, 2003, 2004 and 2005), the Provincial Tax Commission of Milan has ruled in favour of the Company's appeals. The Agenzia delle Entrate (Italian Tax Authorities) has filed an appeal with the Regional Tax Commission of Milan against these decisions. In April 2010, the Regional Tax Commission of Milan ruled in favour of the Agency's appeal regarding 2002, and in October 2011 also regarding the years 2003, 2004 and 2005, on questionable grounds. Cairo Communication has already appealed to the Court of Cassation against the judgment regarding 2002, for which the tax claim amounts to Euro 41 thousand in addition to penalties of Euro 51 thousand, and the judgment regarding the subsequent years 2003, 2004 and 2005, for which the tax claim totals Euro 247 thousand, in addition to penalties of Euro 272 thousand and interest. The tax claim for 2006 amounts to Euro 63 thousand, in addition to penalties of Euro 79 thousand and interest. Regarding this tax claim, the Company has promptly filed an appeal and, to date, the hearing has yet to be scheduled. In June 2012, in relation to 2003, 2004, 2005 and 2006, the Company received two tax assessments demanding payment of the amounts due arising as a result of the judgment of the Regional Tax Commission, for a total claim of approximately Euro 431 thousand, including penalties and interest.

With regard to the tax claim arising from these acts, the directors, based also on the opinion of their tax consultants, believe that there are grounded reasons in fact and in law to oppose the observations made.

In its hearing on 18 October 2010, the Provincial Tax Commission of Milan acknowledged the appeal filed by Cairo Editore S.p.A. regarding the assessment notice for tax year 2004. The Italian Tax Authorities have filed an appeal with the Regional Tax Commission of Milan against the ruling. In its hearing on 27 May 2013, the Regional Tax Commission of Milan rejected the Agency's appeal. On 16 June 2014, the Agency filed an appeal with the Court of Cassation and, on 25 July 2014, the Company notified its defense to the respondent.

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

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

It is also noted that:

- the condensed consolidated half-year financial statements at 30 June 2014 do not include any receivables or payables with a residual term exceeding five years;
- no company within the scope of consolidation has capitalized any financial expenses.

25. Related-party transactions

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

The Group holds relations with the parent (UT Communications S.p.A.) and with the latter's subsidiaries at conditions deemed normal in their respective relevant markets, taking into account the nature of services offered. Below is a summary of the statement of financial position and income statement balances deriving from the transactions made in the first half of 2014 with these related parties. The identification and disclosure regarding related parties were made in accordance with IAS 24.

The effects of these transactions on the 1H14 consolidated income statement of the Cairo Communication Group are as follows:

Receivables and financial assets (€ thousands)	**Revenue**	**Costs**	**Financial income**	**Financial expense**
Parent				
U.T. Communications S.p.A.	-	-	-	-
Jointly-controlled companies				
Torino FC S.p.A.	96	1,032	-	-
Mp Service S.r.l				
Total	**96**	**1,032**	**-**	**-**

The effects of these relations on the consolidated statement of financial position of the Cairo Communication Group at 30 June 2014 are as follows:

Receivables and financial assets (€ thousands)	Trade receivables	Other receivables and current assets	Receivables tax consolidation scheme	Other current financial assets
Parent				
U.T. Communications S.p.A.	61	-	7,624	-
Jointly-controlled companies				
Torino FC S.p.A.	255	-	-	-
Mp Service S.r.l	47			
Total	**363**	**-**	**7,624**	**-**

Payables and financial liabilities (Euro/000)	Trade payables	Other payables and current liabilities	Payables tax consolidation scheme	Other current financial liabilities
Parent				
U.T. Communications S.p.A.	-	-	333	-
Jointly-controlled companies				
Torino FC S.p.A.	114	-	-	-
Total	**114**	**-**	**333**	**-**

In 1H14, the relations and transactions with the parent U.T. Communications and with its subsidiaries can be analyzed as follows:

- the concession contract between Cairo Pubblicità and Torino FC S.p.A. for the sale of advertising space at the Olimpico football pitch and promotional sponsorship packages. The contract provides for the concession to the seller of a percentage (85%) of the revenues 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. This contract resulted in the payment in 1H14 of Euro 924 thousand against total revenue of approximately Euro 1,112 thousand net of agency discounts. Cairo Pubblicità earned further commissions of Euro 33 thousand. As part of the agreement, Cairo Pubblicità also purchased football tickets worth Euro 58 thousand;
- the contract signed by Cairo Communication S.p.A. and Torino FC for the provision of administrative services, such as bookkeeping; in 1H14, this agreement generated revenue of Euro 50 thousand;
- the agreement related to the purchase of advertising space at the Olimpico football pitch between Cairo Editore and Torino FC. In 1H14, advertising space was acquired for a total of Euro 50 thousand;
- the consolidation scheme, which governs the financial aspects of amounts paid or received in return for the advantages or disadvantages resulting from the tax consolidation, specifically provides that any greater charges or minor benefits that may accrue to the Company resulting from participation in the scheme, be suitably remunerated by the parent. In relation to this, the half-year financial report at 30 June 2014 includes receivables from and payables to the parent UT Communications S.p.A. respectively of Euro 7,624 thousand and Euro 333 thousand.

At their meeting on 29 April 2014, the shareholders approved the 2014 remuneration policy, as illustrated in Section 1 of the Remuneration Report, drawn up pursuant to art. 123-ter of Legislative Decree 58/1998 and 84 quater of the Issuers' Regulations and approved by the Board of Directors on 11 March 2014.

26. Transactions deriving from atypical and/or unusual transactions

Pursuant to Consob Communication n. DEM/6064293 of July 28, 2006, it must be noted that in 1H14, the Cairo Communication Group did not engage in any atypical and/or unusual transactions as defined by the above Communication .

With regard to 30 June 2013, it must be noted that on 30 April 2013, the Cairo Communication Group finalized the acquisition of the entire share capital of La7 S.r.l. This transaction generated non-recurring income and expense of Euro 57,066 thousand and Euro 1,917 thousand, as explained in Note 10 above.

27. Subsequent events

After the end of the half-year period (25 July 2014), Cairo Network S.r.l. paid the amount offered (Euro 31.6 million) under the tender procedure opened by the Ministry of Economic Development for the assignment of rights to use TV frequencies for digital terrestrial broadcasting systems, using own funds of Euro 6.6 million (arising from a capital increase of Euro 5.5 million and a shareholder loan of Euro 1.1 million) and by means of a bank loan of Euro 25 million granted by Unicredit S.p.A. on 24 July 2014. The loan is secured by a guarantee issued by the parent Cairo Communication, and calls for the payment of an interest rate equal to the 3-month Euribor plus 225 basis points and certain constraints (negative pledges) and commitments (covenants) on the part of the company, which are typical of these transactions. On 31 July 2014, the Ministry of Economic Development issued the rights of use to the Company.

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

For the Board of Directors

Chairman Urbano Cairo

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

Company	Country of origin	% of investment	Direct or indirect investment	Shareholder	Investment %
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
La7 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 Network S.r.l.	Italy	100	Direct	Cairo Communication S.p.A	100

Declaration of the condensed consolidated half-year financial statements pursuant to Article 81-ter 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), paragraphs 3 and 4 of Leg. Dec. n. 58 of February 24, 1998:

• 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 2014.

2. We also declare that

2.1 the condensed consolidated financial statements at 30 June 2014:

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, and a reliable analysis of information on significant transactions with related parties.

Milan, 5 August 2014

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

KPMG

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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 2014, comprising the income statement, statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity 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 our report on the annual consolidated financial statements, we do not express an audit opinion on the condensed interim consolidated financial statements.

The condensed interim consolidated financial statements present the corresponding prior year annual and condensed interim consolidated financial statements figures for comparative purposes. We audited the 2013 annual consolidated financial statements and issued our report thereon on 7 April 2014. In the note "10. Non recurring income from the acquisition of La7 S.r.l.", the parent's directors disclose that, due to the retroactive application of IFRS 3, they restated some of the corresponding figures presented in the prior year condensed interim consolidated financial statements. We reviewed such condensed interim consolidated financial statements and issued our report thereon on 8 August 2013. We have examined the methods used to restate the prior year corresponding figures and related disclosure provided in the note "10. Non recurring income from the acquisition of La7 S.r.l." for the purposes of preparing this report.

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 2014 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, 6 August 2014

KPMG S.p.A.

(signed on the original)

Francesco Spadaro
Director of Audit