CAIRO COMMUNICATION

Quarterly Report at 30 September 2006

Cairo Communication S.p.A.
Head office
Via Tucidide 56, Milan
Share capital € 4,073,856,80

Table of contents

Quarterly Report at 30 September 2006

Corporate governance

The Board of Directors

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

Board of Auditors

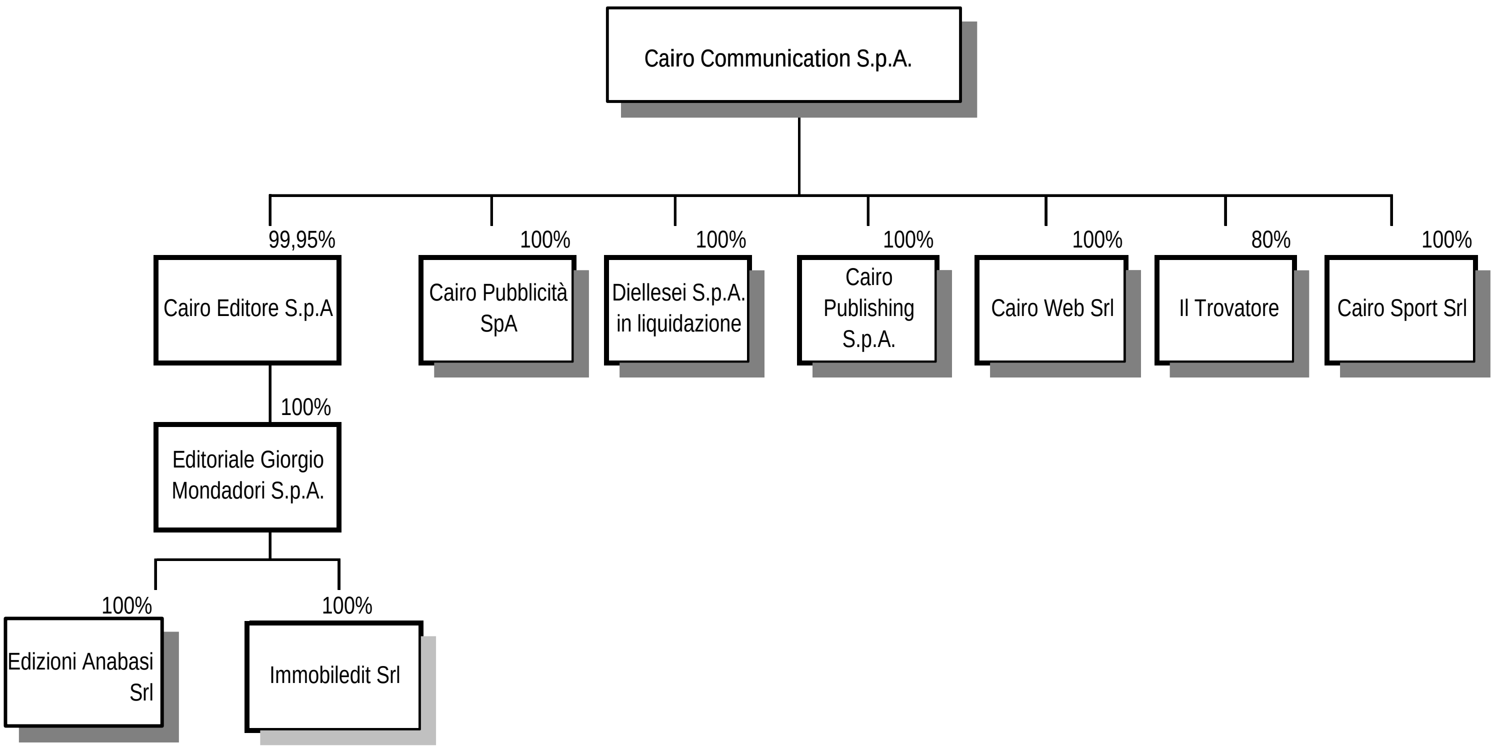
Mauro Sala	Chairman
Marco Baccani	Principal Auditor
Maria Pia Maspes	Principal Auditor
Mario Danti	Alternate auditor
Ferdinando Ramponi	Alternate auditor

Statutory Auditors

Deloitte & Touche S.p.A.

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

Cairo Communication Group structure



1. Basis of preparation and valuation principles of the quarterly report at 30 September 2006

The consolidated quarterly report at 30 September 2006 was prepared according to International Accounting Standards (IAS/IFRS). In accordance with Art. 82 section 2 of the financial regulations, the methods of presenting the quarterly reports have not been changed on previous quarters. The Cairo Communication Group annual financial report at 30 September 2006 is the first to be prepared in accordance with IAS/IFRS (International Financial Reporting Standards).

The following data are included in the sections "IAS/IFRS and valuation criteria" and "Application of IAS/IFRS and their effects" in the appendix to the quarterly report at 31 December 2005:

1 The information required under Consob statement no. 14990 of 14 April 2005 which refers to the reconciliation of net equity at 1 October 2004 and at 30 September 2005 and the results of the financial year ended 30 September 2005 prepared in accordance with Italian accounting standards and the IAS/IFRS respectively;

2 A description of the primary differences between Italian accounting standards used previously and the IAS/IFRS;

3 The accounting practices selected by the Group from the options allowed under the IAS/IFRS;

4 The optional exemptions allowed under IFRS No. 1 used by the Group;

5 A summary of the significant accounting principles adopted;

During this period, no changes have been made to the consolidation scope so it remains unvaried from the financial statements at 30 September 2005.

The consolidated income statement results presented refer to the 2005-2006 twelve months and 4th quarter and are presented with those for the corresponding periods of the 2004-2005 financial year, restated in accordance with IAS for increased transparency.

The balance sheet and financial position presented in the financial statements have been presented with figures from the consolidated financial statements at 30 September 2005, restated in accordance with IAS for increased transparency.

Parent Company financial statements have been prepared using valuation principles unchanged on those used at 30 September 2005.

The Parent Company income statement results presented refer to the 2005-2006 twelve months and 4th quarter and are presented with those for the corresponding periods of the 2004-2005 financial year. The balance sheet and financial position of the Parent Company’s financial statements have been prepared with figures from the financial statements at 30 September 2005.

2. EXECUTIVE SUMMARY

During this period, the Cairo Communication Group continued to operate as a publisher of books and magazines (through the Editoriale Giorgio Mondadori, Cairo Publishing and Cairo Editore publishing houses), as a multimedia advertising broker selling advertising time/space on TV networks, in print media, on internet sites and at stadiums, and as operator of internet sites (Il Trovatore); significant growth from the same period last year was experienced in all these businesses, despite 2005-2006 being a year of significant investments regarding the launch of new print products.

The Group decided to exit the directories sector which it had begun in the summer of 2004, mainly because of general economic conditions and the high level of complexity and competition in this market, conditions that had already protracted the company's business development phase as well as the business plan reassessment that had been set initially. On 10 July 2006 at the Cairo Directory Extraordinary General Meeting, Cairo Communication—which owned 60% of it—voted to liquidate the company, which also changed its name to Diellesei S.p.A. in liquidation.

Looking at the publishing sector, "Settimanale Di Più" is the second best-selling magazine in Italy with average ADS sales of 800,476 copies over the September 2005–August 2006 twelve month period, while "Di Più TV" has enjoyed average ADS sales of 629,646 copies during the same period, further consolidating their extraordinary success to date. "Diva e Donna", Cairo Editore's new weekly magazine for women edited by Silvana Giacobini, recorded average ADS sales of 251,735 copies over the November 2005–August 2006 period, which is exceedingly satisfying results for the company, in line with forecasts.

In light of the magazine's strong sales figures and great popularity amongst the public, it was possible to increase the cover price of "Di Più TV" in July 2006 to € 0.80, having been increased from € 0.50 to € 0.70 during September of last year.

Following the successful launch of two new monthly magazines, "Di Più TV Cucina" in November 2005 (average sales of 311,200 copies over the first ten issues of 2006) and "Di Più TV Stellare" in January 2006 (average sales of 210,300 copies over the first ten issues of 2006), May saw the launch of "Di Più TV Giochi", which has average sales of 141,800 for the first six months of its publication. These monthly publications are sold with "Di Più TV" for a total price of € 1.20 (€ 1.00 until June 2006).

Over the July–September 2006 three month period, "Settimanale Di Più", "Di Più TV" and "Diva e Donna" generated sales at Group level of approximately € 13.7 million, € 7.4 million, and € 4.9 million, respectively.

Looking at the advertising sector, during the year sales on the La 7 TV network, approximately € 101.3 million, grew by 9% compared to the past year (against TV advertising sales market growth of 2% over the October–September 2006 twelve month period: source AC Nielsen). The results of this quarter are largely in line with those from the same period in the past year, due to effects of the concentration of TV advertising investments on the RAI channels during the World Cup soccer matches.

CAIRO COMMUNICATION GROUP - FINANCIAL RESULTS

Cairo Communication Group Consolidated Income Statement

(€ thousands)	30/09/2006 (12 months)	30/09/2006 (Q4)	30/09/2005 (12 months)	30/09/2005 (Q4)
Sales	241,185	49,262	199,144	45,597
Advertising agency discounts	(23,159)	(4,217)	(19,696)	(3,903)
Inventory movements	297	(125)	(172)	(21)
Other operating revenues	2,613	696	2,281	598
Operating revenues	**220,936**	**45,616**	**181,557**	**42,271**
Cost of sales	(186,739)	(38,363)	(154,518)	(36,557)
Personnel costs	(17,651)	(3,836)	(13,052)	(2,866)
Gross operating profit (EBITDA)	**16,546**	**3,417**	**13,987**	**2,848**
Depreciation and provision charges	(3,353)	(796)	(4,175)	(1,554)
Operating profit (EBIT)	**13,193**	**2,621**	**9,812**	**1,294**
Net finance income	2,322	608	2,094	512
Profit before tax	**15,515**	**3,229**	**11,906**	**1,806**
Income tax	(5,400)	(1,167)	(4,003)	(755)
Minority interests	13	2	2	(19)
Net profit from continuing operations	**10,128**	**2,064**	**7,905**	**1,032**
Net loss from activities held for disposal	(9,874)	(5,523)	(3,484)	(1,300)
Net profit	**254**	**(3,460)**	**4,421**	**(268)**

An analysis of the effects from the application of the IAS/IFRS on net equity and the financial statements at 30 September 2005 is presented in the second section “Reconciliation of net equity and financial results at 30 June 2005” in the appendix to the quarterly results at 31 December 2005.

In consideration of Diellesei’s liquidation, the full year profit for this subsidiary, net of taxes and minority profit, is shown separately in the item “net loss from activities held for disposal”. Also, the income statements for the periods to 30 September 2005 have also been reclassified.

The excellent sales performance of Group publications and the strong growth recorded in advertising sales relating to the La 7 TV network have generated consolidated gross operating revenues of € 243.8 million (€ 201.4 million in 2004-2005), including sales revenues of €241.2 million and other income of € 2.6 million, an increase of 21% on the previous financial year. Of note, income at Group level from the publishing sector has grown 28% from € 99.6 million to € 127.6 million.

Consolidated gross operating profit (EBITDA), operating profit (EBIT), and net profit from continuing operations were € 16.6 million, €13.2 million and € 10.1 million, growth rates of 18%, 35% and 28% respectively (against € 14 million, €9.8 million and € 7.9 million for the 2004-2005 period year, restated in accordance with IAS/IFRS international accounting standards).

The growth of profit from continuing operations is indicative of the income potential of new publishing ventures particularly since 2004, which is further underlined by the fact that the profit for the 2005-2006 financial year was negatively impacted by pre-publication and launch costs relating to the new “Diva e Donna” (€ 3.5 million), as have additional launch advertising costs for the monthly magazines “Di Più TV Cucina”, “Di Più TV Stellare”, “Di Più TV Giochi” and “In Viaggio” (€ 1.6 million), and for the weekly “Diva e Donna” for € 1.9 million, for a total of approximately € 7 million. All costs for the launch of “Di Più TV” (€ 4.2 million) and its additional advertising costs (€ 0.5 million) were included in the previous financial year.

The profit for the year was negatively impacted by net loss from activities held for disposal , i.e. Diellesei in liquidation, which can be analysed as follows:

(€ thousands)	30/09/2006 (12 months)	30/09/2006 (Q4)	30/09/2005 (12 months)	30/09/2005 (Q4)
Sales	-	-	-	-
Advertising agency discounts	-	-	-	-
Inventory movements	-	-	-	-
Other operating revenues	-	-	-	-
Operating revenues	**-**	**-**	**-**	**-**
Cost of sales	(7,391)	(4,161)	(7,794)	(2,658)
Personnel costs	(3,847)	(1,401)	(452)	(332)
Gross operating profit (EBITDA)	**(11,238)**	**(5,562)**	**(8,246)**	**(2,990)**
Depreciation and provision charges	(5,058)	(2,342)	(341)	(218)
Operating profit (EBIT)	**(16,297)**	**(7,903)**	**(8,587)**	**(3,208)**
Net finance income	(441)	(144)	(11)	(8)
Profit before tax	**(16,738)**	**(8,0,48)**	**(8,598)**	**(3,216)**
Income tax	5,483	2,523	2,790	1,048
Minority interests	1,380	2	2,323	867
Net loss from activities held for disposal	**(9,874)**	**(5,523)**	**(3,485)**	**(1,301)**

The liquidation of the subsidiary Diellesei that generated operating losses during the year—mainly personnel and general costs—provoked the writing off of some of the company’s tangible and intangible assets (€ 1.8 million), caused some working capital items to be transferred to the income statement (€ 3.5 million): these are mainly pre-payments made for the disposal and deferred cost of sales, costs generated by the liquidation itself (€ 1.6 million) and the provision to cover further liquidation costs.

Minority interests were calculated on the basis of the residual share owned by minority shareholders UT Communications S.p.A., who can make capital increases and must cover losses.

In the quarter, Cairo Communication Group gross revenues grew 7.8% from €46.2 million in the previous year to € 49.9 million, including sales revenues of € 49.2 million and other revenues of € 0.7 million.

Consolidated gross operating profit (EBITDA), operating profit (EBIT), and net profit from continuing operations during the quarter were € 3.4 million, €2.6 million and € 2.1 million, growth rates of 21.4%, 102% and 101% respectively (against € 2.8 million, €1.3 million and € 1 million for the 2004-2005 period year. Net profit was particularly adversely affected by the results of Diellesei in liquidation as this quarter included one-off liquidation costs that therefore were accounted for in this period's income statement as from the date in which the decision for liquidation was made.

Cairo Communication Group

Consolidated Balance Sheet

at 30 September 2006

(€ thousands)	30/09/06	30/09/2005
ASSETS		
Property, plant and equipment	3,353	3,765
Intangible assets	9,544	11,483
Investments	5,995	6,013
Net current assets	(12,877)	(7,320)
Total assets	**6,015**	**13,941**
EQUITY AND LIABILITIES		
Non-current borrowings and provisions	6,054	5,298
Net financial assets	(92,395)	(107,519)
Shareholders' equity	92,841	117,986
Minority interest	(485)	(1,824)
Total equity and liabilities	**6,015**	**13,941**

The meeting of Cairo Communication Group shareholders of 30 January 2006 decided to distribute a total of € 23.5 million in dividends, at € 3 per share, before withholding tax. At 30 September 2006, € 19.8 million had been distributed.

Cairo Communication Group

Consolidated Net Financial Position Statement

at 30 September 2006

(€ thousands)	30/09/06	30/09/05	Change
Bank and cash	91,872	100,376	(8,504)
Surety deposit	7,189	7,092	97
Short term investments:			
- Other securities	161	82	79
- Insurance financial income receivable	6,000	6,000	0
Bank loans	(12,827)	(6,031)	(6,796)
Total	**92,395**	**107,519**	**(15,124)**

Investments include a current bank account registered in the name of both Cairo Communication SpA and Telepiù S.p.A. of € 6,995 thousand (€7,189 thousand including accrued interest). This deposit was made as a result of a settlement agreement reached by the parties during appeal proceedings for a precautionary seizure requested by the Company before the Court at Milan, as a guarantee on the Company's right to damages from Telepiù S.p.A. Cairo Communication has lodged the requisite funds in accordance with Telepiù accounts from 2004, awaiting the arbitrators' decision.

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

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

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

(€ thousands)	Consolidated statements at 30/09/2006			Consolidated statements at 30/09/2005		
	Publishing	**Advertising**	**Total**	**Publishing**	**Advertising**	**TOTAL**
TV advertising times sales		111,325	**111,325**		99,372	99,372
Print media advertising space sales	38,333	17,856	**56,189**	29,649	13,748	43,397
Electronic billboard and stadium signs ad space sales		2,192	**2,192**	-	267	267
Internet advertising time sales		23	**23**	-	40	40
Magazine over-the-counter sales	68,376		**68,376**	53,120	-	53,120
Magazine subscription sales	3,373		**3,373**	3,414	-	3,414
Audiovisual and other sales		48	**48**	153	-	153
Books and catalogues	1,058		**1,058**	675	-	675
VAT relating to publications	(1,399)		**(1,399)**	(1,294)	-	(1,294)
Total – sales	109,741	131,444	**241,185**	**85,717**	**113,427**	**199,144**
Other operating revenues	1,052	1,561	**2,613**	1,031	1,250	**2,281**
Total - Gross Operating Revenues	**110,793**	**133,005**	**243,798**	**86,748**	**114,677**	**201,425**

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

Analysis of 4th Quarter Consolidated Income Statement Results by Business Segment

(€ thousands)	Three months ending 30/09/2006 -			Three months ending 30/09/2005 -		
	Publishing	**Advertising**	**Total**	**Publishing**	**Advertising**	**Total**
TV advertising times sales	0	17,604	**17,604**	0	17,836	**17,836**
Print media advertising space sales	8,998	3,658	**12,656**	7,458	3,160	**10,618**
Electronic billboard and stadium signs ad space sales	0	369	**369**	0	267	**267**
Internet advertising time sales	0	7	**7**	0	13	**13**
Magazine over-the-counter sales	18,142	0	**18,142**	16,345	0	**16,345**
Magazine subscription sales	850	0	**850**	870	0	**870**
Audiovisual and other sales	0	(65)	**(65)**	93	0	**93**
Books and catalogues	106	0	**106**	89	0	**89**
VAT relating to publications	(407)	0	**(407)**	(534)	0	**(534)**
Total – sales	27,689	21,573	**49,262**	24,321	21,276	**45,597**
Other operating revenues	229	467	**696**	329	269	**592**
Total - Gross Operating Revenues	27,918	22,040	**49,958**	24,650	21,545	**46,195**

CAIRO COMMUNICATION GROUP OPERATING RESULTS

PUBLISHING BUSINESS

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

Revenues from the Group publishing business increased sharply during this period, up 27.6% to € 110.8 million. When advertising agency revenue of € 16.8 million is included, this figure at Group level reaches € 127.6 million in 2005-2006, € 99.6 million in 2004-2005, the latter figure gross of advertising agency revenue of € 12.8 million. This considerable increase is largely due to the excellent performance of “Settimanale Di Più”, “Di Più TV” and “Diva e Donna”.

These figures have led the Group to forecast a strong positive impact on Group profitability margins by both titles, particularly as the cover price for “Di Più TV” was increased from € 0.70 to € 0.80 in July 2006.

Following the success of two new monthly magazines, “Di Più TV Cucina”—launched in November 2005 and now enjoying average sales of 311,200 copies over the first ten issues of 2006—and “Di Più TV Stellare”—launched in January 2006 and now achieving average sales of 210,300 copies over the first ten issues of 2006—July saw the launch of “Di Più TV Giochi”, which has average sales of 141,800 for the first six months of its publication. These monthly publications are sold with “Di Più TV” for a total price of € 1.20 (€ 1.00 until June 2006).

With “Diva e Donna” consolidating the success enjoyed by “Settimanale Di Più” (average sales of 800,476 copies over the September 2005-August 2006 twelve month period) and “Di Più TV” (average sales 629,646 copies over the September 2005-August 2006 twelve month period), Cairo Editore continues its aggressive development strategy in the weekly magazine market. If magazines sold with daily newspapers are excluded, Cairo Editore is the second best-selling publisher of weekly magazines in Italy.

The launch of the monthly publications sold with “Di Più TV” and the new weekly women’s magazine “Diva e Donna” follows the success of the previous four titles—“For Men Magazine” (2003), “Natural Style” (2003), “Settimanale Di Più” (2004) and “Di Più TV” (2005)—and has allowed for even better streamlining of existing structures that Editoriale Giorgio Mondadori—

which continues to focus its business on the magazines “Bell’Italia”, “Bell’Europa”, “In Viaggio”, “Airone”, “Gardenia”, “Arte” and “Antiquariato”—made available to Cairo Editore.

ADVERTISING BUSINESS

The excellent sales performance of new publications and the strong growth recorded in advertising sales on the La 7 TV network have pushed Group gross advertising sales up to € 170.9 million inclusive of intra-Group sales of € 38 million, a growth of 18.6% against the previous year (€144 million inclusive of intra-Group sales of € 29.4 million).

Group gross advertising sales for the quarter totalled € 30.7 million including intra-Group sales of € 8.7 million, an increase of 6.6% against the same period in the past year (€ 28.7 million including intra-Group sales of € 7.2 million).

A) TELEVISION

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

More specifically, during the year sales on the La 7 TV network, approximately € 101.3 million, grew by 9% compared to the past year (against TV advertising sales market growth of 2% over the October–September 2006 twelve month period: source AC Nielsen). The results of this quarter are largely in line with those from the same period in the past year, due to effects of the concentration of TV advertising investments on the RAI channels during the World Cup soccer matches.

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

B) PRINT MEDIA DIVISION

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

- “For Men Magazine”, “Natural Style”, “Settimanale Di Più”, ““Di Più TV” and “Diva e Donna”, published by Cairo Editore;
- “Bell’Italia”, “Bell’Europa”, “In Viaggio”, “Airone”, “Gardenia”, “Arte” and “Antiquariato”, published by Editoriale Giorgio Mondadori;
- “Prima Comunicazione”.

During this year, print media income grew from € 43.1 million (before intra-Group sales of € 29.4 million) to € 55.9 million (before intra-Group sales of € 38 million), largely due to the success of “Settimanale Di Più”, “Di Più TV” and “Diva e Donna”.

During this quarter print media income grew from € 10.3 million (before intra-Group sales of € 7.2 million) to € 12.4 million (before intra-Group sales of € 8.7 million).

C) INTERNET DIVISION – IL TROVATORE

During this year the search engine business Il Trovatore continued, and it achieved good results in terms of numbers of searches on its home site and through third parties, which totalled 21 million, and service subscribers, which totalled 350,000. Business was focussed on the search for sources of income having synergies with advertising sales, that also can be linked to technology services sales.

D) DIRECTORY DIVISION – CAIRO DIRECTORY

As already reported, the Group decided to liquidate the company Diellesei in liquidation, thus choosing to exit the directories business. This decision was influenced primarily by the general economic situation and the high level of complexity and competitiveness of this market. These conditions combined to lengthen the development phase of the company, which led to a revision of the initial business plan.

Close monitoring of the realisation of the business plan, the development of the order portfolio, recruitment and sales force training timescales, deferment of publication dates and the ongoing expert assessment following the legal proceedings undertaken by Seat Pagine Gialle SpA, showed that the timescales involved needed further revision, which would have further delayed the company’s break even point.

GROUP INVESTMENTS

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

(€ thousands)	30/09/2006 (3 months)	30/09/2006 (12 months)	30/09/2005 (3 months)	30/09/2005 (12 months)
Increases				
TV ad time sales rights & computer software	36	924	406	1,766
Publications development	-	84	-	-
Current costs and down payments	-	-	-	-
Magazine titles	-	-	-	-
Other	49	49	71	162
Total investments in intangible assets	**85**	**1,057**	**477**	**1,928**
Land and buildings	-	-	-	-
Machinery	43	43	-	-
Other	15	302	223	888
Assets under construction	-	-	-	-
Total investments in property, furniture and equipment	**58**	**345**	**223**	**888**
Investments	-	-	5,827	5,827
Financial receivables from associates	-	-	0	83
Total investments in non-current financial assets	**-**	**-**	**5,827**	**5,910**
Total	**143**	**1,402**	**6,527**	**8,726**

CAIRO COMMUNICATION SPA – FINANCIAL RESULTS

Parent Company Income Statement

(€ thousands)	30/09/2006 (12 months)	30/09/2006 (Q4)	30/09/2005 (12 months)	30/09/2005 (Q4)
Sales	155,568	27,470	141,306	26,409
Less: advertising agency discounts	(16,040)	(2,582)	(18,256)	(2,464)
Other operating revenues	1,103	409	1,626	339
Operating revenues	**140,631**	**25,297**	**124,676**	**24,284**
Cost of sales	(132,065)	(24,009)	(113,406)	(23,483)
Personnel costs	(2,240)	(496)	(3,816)	(587)
Gross operating profit (EBITDA)	**6,326**	**792**	**7,454**	**214**
Depreciation, amortisation and provision charges	(2,211)	(624)	(4,430)	(22)
Operating profit (EBIT)	**4,115**	**168**	**3,024**	**192**
Net finance income	2,379	588	1,831	450
Investments writedowns	(13,745)	(5,449)	(5)	(5)
Profit on ordinary activities	**(7,251)**	**(4,693)**	**4,850**	**637**
Exceptional expenses			17,144	17,791
Profit before tax	**(7,251)**	**(4,693)**	**21,994**	**18,428**
Income tax	(2,551)	(292)	(2,091)	(2,091)
Net profit	**(9,802)**	**(4,985)**	**19,903**	**16,337**

The financial statements for Cairo Communication for the 2005-2006 financial year are not completely comparable with those for the same period last year because in June 2005 Cairo Communication SpA transferred to its subsidiary, Cairo Pubblicità Srl, its own company branch, comprising the sales network relating to the sale of advertising time. As a result of this, the structure of the Parent Company's income statement has been partly modified, as Cairo Pubblicità operates:

- As a subagent of Cairo Communication for print media advertising sales (Cairo Editore, Editoriale Giorgio Mondadori and Editoriale Genensis magazines), remitting to Cairo Communication a percentage of revenue generated.
- With two different contractual roles, one of agent, receiving commission and another as commercial services provider, earning a percentage of revenues generated, for television advertising sales (La 7, Cartoon Network, Boomerang, CNN and Bloomberg).

Since June 2005, Cairo Pubblicità has been responsible for all costs related to this company branch and its staff.

Cairo Communication S.p.A. gross operating revenues for this period totalled € 156.6 million. Gross operating profit (EBITDA) is € 6.3 million down from the €7.5 million from the same period last year, and the operating profit (EBIT) totalled € 4.1 million up from the €3.0 million of the same period last year. Factoring in profits achieved by Cairo Pubblicità, together the two companies generated gross operating revenues of € 172.8 million, EBITDA of € 11.9 million and EBIT of € 8.0 million. The EBITDA and EBIT figures for the same period in the past year were € 8.3 million and €3.3 million, respectively.

The considerable improvements in the financial results reflect the increase in advertising sales relating to new publications and TV advertising time sales contracts, particularly La 7 and the Cartoon Network.

Investment writedowns refer to the writedown in value of the share in Diellesei in liquidation S.p.A. (€ 5.3 million) which went into liquidation at the Shareholders Meeting of 10 July 2006, and the creation of a provision of € 8.4 million in relation to this liquidation.

Profits from the 2004-2005 financial year were positively impacted by the sale of the entire share (100%) held in Editoriale Giorgio Mondadori S.p.A. to the subsidiary Cairo Editore S.p.A. The transaction allowed Cairo Communication to make total capital gains of € 17.8 million.

Cairo Communication SpA Parent Company Balance Sheet

(€ thousands)	30/09/06	30/09/2005
<u>Assets</u>		
Property, plant and equipment	305	386
Intangible assets	2,248	3,366
Investments	14,155	16,121
Treasury shares	2,186	86
Other net current assets	14,159	23,323
Total assets	**33,053**	**43,282**
Non-current borrowings and provisions for liabilities	7,867	387
Net financial assets	(84,700)	(100,165)
Borrowings from unconsolidated subsidiary	4,885	4,885
Shareholders’ equity	105,001	138,175
Total equity and liabilities	**33,053**	**43,282**

The movement in financial assets and borrowings and provisions relates to the writedown applied to the investment in Diellesei in liquidation SpA discussed above.

Current assets include € 15.9 million generated by the sale of the shares in Editoriale Giorgio Mondadori to the Cairo Editore subsidiary. The contract provided for the payment for the sale of € 5 million by 5 August 2005 and the remainder by 29 September 2005, without interest, or else five consecutive annual instalments of equal value, with interest, from 1 October 2005, with no early exit option. A further payment of € 5 million was made during March 2006.

As discussed above, the meeting of Cairo Communication Group shareholders of 30 January 2006 decided to distribute a total of € 23.5 million in dividends, at € 3 per share. At 30 June 2006, € 19.8 million had been distributed.

During the 2005-2006 financial year, 46,601 treasury shares were acquired. Cairo Communication currently holds 49,193 treasury shares, with an average weighted value of € 44.40.

Cairo Communication SpA - Parent Company Statement of Net Financial Position

Cairo Communication S.p.A.	30/09/06	30/09/2005	Change
Bank and cash	71,350	87,019	(15,669)
Surety deposit	7,189	7,092	97
Insurance financial products	6,000	6,000	0
Marketable securities	161	82	79
Bank loans	0	(28)	28
Total	**84,700**	**100,165**	**(15,465)**
Immobiledit borrowings	(4,885)	(4,885)	0
Net financial position	**79,815**	**95,280**	**(15,465)**

As discussed previously, financial assets include a surety deposit of € 6,995 thousand (€7,189 thousand including accrued interest).

OUTLOOK

Cairo Communication Group will focus on developing its core businesses during the 2005-2006 financial year. It will focus on the development of its Publishing business operated by its Cairo Editore SpA and Editoriale Giorgio Mondadori (EGM), and Cairo Publishing subsidiaries, as well as its Advertising business, in particular the sale of advertising space in its own magazines and the sale of advertising time on the La 7 TV network and selected analogue and digital pay TV specialty channels.

Looking at the publishing sector, while during this financial year significant investments totalling € 7 million were sustained for the pre-publication and launch of the new “Diva e Donna" magazine and the monthly supplements of “Di Più TV” (i.e. “Di Più TV Cucina”, “Di Più TV Stellare”, and "Di Più TV Giochi”), no new magazine launches are forecast for the 2006-2007 year; instead the Group will fully exploit the financial benefits of the existing titles.

Business activity will focus on the consolidation of current titles, especially regarding the successful ventures that were initiated in the past three years (i.e. “Settimanale Di Più”, “Di Più TV”, “Di Più Cucina”, “Di Più Stellare ”, “Di Più Giochi ”, “Diva e Donna”, “For Men Magazine” and “Natural Style”).

The most recent distribution figures for the titles “Settimanale Di Più”—the second best-selling magazine in Italy with average ADS sales of 800,476 copies over the September 2005–August 2006 twelve month period—“Di Più TV”—with average ADS sales of 629,646 copies during the same period—and “Diva e Donna”—with average ADS sales of 251,735 copies over the November 2005–August 2006 period—confirm the consolidation of the extraordinary success attained, and the margins exist to take into consideration possible cover price increases, especially for “Settimanale Di Più”. This business will also be concentrated in the pursuit of production and distribution costs structure optimisation, with special attention on distribution coverage.

With “Diva e Donna” adding to “Settimanale Di Più” and “Di Più TV”, Cairo Editore has continued its strategy of strong growth in the weekly publishing business and, not counting magazines sold with daily newspapers, has become the second best-selling publisher of weekly magazines in Italy.

Chairman of the Board of Directors

Urbano Cairo