

DETAILS OF THE MAIN RISKS AND UNCERTAINTIES TO WHICH THE GROUP IS EXPOSED

Mediaset Group Enterprise Risk Management System

As an integral part of its own Internal Controls System in Italy and Spain, the Mediaset Group has implemented a Risk Management model in order to better respond to the risks to which it is structurally exposed.

As defined in the Group's Corporate Governance Code, the Internal Controls System is *"a set of rules, procedures and organisational structures aimed at maintaining, through an adequate process of identification, measurement, management and monitoring of the main risks, a sound and proper corporate management consistent with pre-established objectives. An effective Internal Controls system contributes to ensuring the preservation of the company's assets, the effectiveness and efficiency of corporate operations and transactions, the reliability of financial information and the observance of laws and regulations"*.

In 2007, the Board of Directors issued the new guidelines for the Internal Controls System, which identified the methods to apply for the purpose of identification, management, measurement and monitoring of the Group's risks (Enterprise Risk Management). Such guidelines were implemented through the definition of a number of operating rules suitable for the identification and regulation of the activities, responsibilities and information flows necessary to manage risks ("Internal Controls System Policy").

Management and Top Management based the risk identification and evaluation process on a self-assessment of risk. The considerations brought up by the Group's Management and Top Management highlight that enterprise risks on the whole have been adequately controlled and managed thus far. In recent years, the Group has exhibited a propensity and ability to progressively adjust the strategic and process-linked risk control criteria in relation to both the evolution of the competitive environment and the growth opportunities emerging in the market by managing enterprise, structural and general economic risk.

Main risk factors and uncertainties

A number of potential risk factors and uncertainties impact the Mediaset Group's pursuit of strategic objectives, as well as its economic and financial position. These are grouped into the following categories:

- External and sector-specific risks: these are primarily related to the changing economic cycle, development of intermediate and final reference markets (relating to consumer demand for audiovisual and entertainment product content and the demand for advertising space) and changes in the regulatory and legislative environment;
- Risks connected with the implementation of the strategic guidelines and policies (reputation, management of partnerships and alliances) and management of the main operating processes linked to the management, and also the development, of the technical, logistical and publishing conditions under which the factors of production and the strategic assets (managerial resources, content and distribution network) used in the typical activities of television production and broadcasting, are coordinated and managed;
- Financial risks connected with the management of the requirements and fluctuations of interest and exchange rates;

- Risks connected with the management of legal disputes;
- Risks connected with environmental policy;
- Risks connected with Governance.

A description of the nature of each of the main sources of risk and uncertainty is provided below, along with the risk management and mitigation measures implemented by management.

External and sector-specific risks

Risks related to trends in the economic cycle

The core activities of the Mediaset Group largely depend on trends in advertising investments, a structurally cyclical sector that is closely linked, albeit with differences among the various business segments, to the general economic scenario and development of the final markets in which customer companies operate. The decline in development and growth prospects for the economy, especially in Italy and Spain, the markets in which the Group's television operations are currently based, can therefore lead to a reduction in the Group's advertising revenues and in operating margins over the short term. In fact, both Italy and Spain are among Europe's best-ranking countries in terms of potential growth of the television advertising market, measured as the ratio of advertising investment to gross domestic product.

Mediaset has already demonstrated, in the recent past, its ability to handle phases of cyclical slowdowns, although less intense and probably shorter than the current crisis. During such periods, the Group has pursued a policy aimed at enhancing its capabilities, taking advantage of the traditional trend in advertising investments to concentrate on generalist television during difficult periods, in order to ensure greater visibility in the mass market. In the past, these factors have enabled the Group to consolidate its competitive advantages, by better exploiting the growth opportunities upon recovery of the economic cycle and protecting profitability over the long term.

The prolonged phase of economical turmoil, which has been worsened by the crises of European sovereign debt, is due to carry on at least during the next 2 years. The major observers preview a substantially recessive scenario for this period. Italy and Spain continue to be among the country with a major exposition, with a long expectation for a recovery of the individual income level to the same measure before the crisis started. This scenario will probably continue to affect future prospects in the advertising market in the Group's two key geographical areas.

In the current economic scenario, the Mediaset Group is concentrating its efforts in Italy and Spain on effectively counteracting the current uncertainty regarding the possible evolution of the advertising market in the short term, with the objective of consolidating its leadership both in terms of advertising market share and publishing results in relation to the relevant commercial targets, acting in the same time on costs and investments side through a continuous review of its own processes.

For more detailed information regarding the analysis of the general trend in the economy and of the main economic and financial indicators for 2010, reference should be made to the

comments included in the preceding section of this document under “The general economic situation”.

Risks related to the evolution of the media & communications market

Technological changes, audience fragmentation and increased competition

In recent years, the television sector has been impacted by a structural transformation primarily triggered by the introduction of digital technology.

The main market trends that are currently shaping the new dynamics of competition can be summarised as follows:

- Technological advances have progressively changed content use, favouring the introduction of interactive/on-demand media and particularly accelerating the migration of younger viewers towards more “customised” options.
- The demand for entertainment products continues to grow both in relation to traditional media as well as the new platforms.
- With regard to commercial generalist television, the convergence between distribution platforms has given rise to development opportunities (multi-channel offers and pay TV), but also to potential threats concerning audience fragmentation and an increased number of total platforms available for the exploitation of television content (satellite, internet, mobile, etc.), leading to a more complex competitive scenario.
- The increase in the number of distribution platforms has also raised the value of publishing content, strengthening the competitive edge of “traditional” operators, which have the know-how for content design, development and packaging, as well as for the development of programme schedules.
- The absence of technological barriers higher the risk for traditional broadcasters of being de-intermediated by group which own original contents and formats, as well as by Internet operators, some of which begin to assume buying strategies on contents market, trying to replicate offer models which could be competitive facing the actual broadcasters' offer.
- Specifically, the Italian market is characterised by the presence of two pay tv operators. This market in the last 3 years have recorded significant growth rate, mainly driven by Mediaset Premium's growth. In the Spanish competitive environment, the segment of generalist television, which has, in recent years, been characterised by an increased number of players, which has resulted in an acceleration of the phenomena of audience fragmentation and competition on premium content, will now move toward greater concentration between the main operators.

Thus, the environment just described could lead to the risk of a possible lower interest in so-called generalist non-encrypted television on the part of the television audience, which has become more discriminating and demanding due to new means of communication, and as a result, the Group runs the risk of not adequately managing opportunities derived from emerging businesses.

Mediaset's strategic approach to the main risk generated by these competitive forces is to focus on a business model that leverages a high level of vertical integration (content, packaging and distribution), as well as the opportunities offered by multi-channel television, facilitated by the

development of digital terrestrial technology. This allows it to maintain, through the highly-rated, free-to-air generalist and theme-based channels, closer monitoring of the audience and, through a model mainly based on pay TV offerings, closer monitoring of the highly fragmented audience. In this context, Mediaset was the first generalist broadcaster to penetrate the pay TV market and explore the sectors of new platforms (DTT, DVB-H) and business models (PPV).

Premium Play development initiatives, as well as the launch of TGCom 24 (a multi-platform information service, integrated and synergic on all the main devices) represent the Group's concrete actions and its capacity to exploit the opportunities offered by alternative platforms, using its professional know-how and its recognisable brands.

The transaction completed in Spain during 2010 by the subsidiary Mediaset España (full acquisition of Cuatro and equity investment in Digital Plus) is a part of the strategy of strengthening the multi-channel generalist strategy and integrated free TV and pay TV offerings in keeping with market opportunities in both geographical areas covered by the Group.

In implementing this strategy, Mediaset benefits from a competitive edge consisting of its deep-seated culture acquired in the generalist television business. In fact, the Group has access to highly skilled resources with extensive expertise in the various segments of free TV business. Moreover, it has acquired new professional skills from the market to reinforce the internal know-how in the R&D context.

Inadequate control of the content market

An additional element characterising the evolution of the media & communication sector is the increased value acquired by content. In order to take advantage of this development, the Group is making considerable investments to acquire content.

Mediaset and its subsidiary RTI own Italy's - as well as one of Europe's - most important libraries of television rights, thanks to multi-year contracts entered into with major US producers, such as Universal, Twentieth Century Fox, DreamWorks, Sony Columbia and Warner Bros. International, and independent US and European producers (TV movies, soap operas, miniseries and serials), ensuring that the requirements of the Group's free and pay businesses are met.

The Mediaset Group has also made key acquisitions of leading content production houses, and has entered into important commercial agreements that allow the Group to rely on the availability of film products, entertainment products for children and sports events (rights to the "Serie A" Football Championship Games until the 2014-2015 season for the most important Italian football clubs) to boost the Premium channel offerings.

Control of the risks associated with content market monitoring also translates into an increased emphasis on content produced in markets that are continuously monitored to identify innovative content and through a constant action (aimed to preserve the broadcaster driven model, ensuring the protection of copyright on the web) carried out by the Group in association with other important international players.

Risks related to the evolution of the advertising market

Television advertising sales still represent the main source of revenue for the Group, despite the introduction of pay TV activities and the development of diversification initiatives (sale of multi-platform content, teleshopping and film distribution) in recent years.

Though preserving significant growth margins, the advertising sales market is currently suffering from limited visibility, is subject to shorter economic cycles and is extremely sensitive to the general economic situation.

However, the free-to-air generalist television model is expected to continue as the main mass-market communication tool during upcoming years, although it will increasingly target specific audience segments.

Mediaset operates in the Italian and Spanish markets through its exclusive internal licensed distributors Publitalia '80 and Publiespana, which have consolidated their leadership over the years by developing management models able to promptly respond to the changing needs of investors and to market changes, attracting new investors and designing commercial policies centred on the optimisation of their capacity, as television publisher, to segment the most attractive targets from a commercial viewpoint and maximise the exploitation of advertising space in the relevant programme schedules.

As an extension of this know-how, by creating specialised licensed distributors Digitalia '08 in Italy and Publimedia Gestion in Spain as well as the joint venture in Mediamond, the Group also controls advertising sales on other media developed by the Group. Particularly, through the interest in Mediamond, the Group aims to develop the synergy on the web advertising sales, also having a strong presence in this high-growing market.

Data on the market shares held by the Group's licensed distributors in their respective reference advertising markets are specified in the relevant sections included in this Report, dedicated to the analysis of Group activities. Data on the customer base are instead specified in the section of the Explanatory Notes to the financial statements dedicated to the management of financial risks.

Risks related to regulatory changes

The Mediaset Group operates in various businesses that may imply risk in relation to its core business due to the introduction of regulatory changes or non-compliance with the regulations governing the television sector, including advertising, communication and the management of radio-electrical space and equipment.

Therefore, the regulatory risks for the Group mainly refer to possible restrictions on the performance of its activities, with particular reference to the regulations on total time/inserts/interruptions as regards advertising, regulations on the protection of minors, unfair competition, the protection of pluralism and equal opportunities, with the consequent economic damages (administrative sanctions) and/or damage to image, and uncertainties related to the transition to television broadcasts using digital technology (switch off).

The different production and management processes, the many players involved in each, the complexity and extensive number of regulations applicable to the different processes, as well as the different possible interpretations of the same regulations make it necessary, in order to limit risks, to monitor regulatory and legislative changes and operational compliance with the regulations.

The overall identification, dissemination and operational monitoring activities can be considered to be well-established and effective in monitoring the risk of non-compliance with the applicable regulations, including as a result of specifically designated corporate functions.

Despite the effectiveness of monitoring activities, elements and situations could still emerge which are not controllable or for which the effects on Group activities or public impact may be difficult to predict.

For more detailed information regarding the regulatory and legislative framework and, specifically, the regulatory amendments/supplements introduced in 2010, reference should be made to the comments included in the preceding section of this document under "Development of the regulatory framework in the television industry".

Risks related to the implementation of strategies and the main operating processes

Reputation and relationship with stakeholders

One of the key strategic objectives of the Mediaset Group is the ability to maintain and increase content innovation and brand value perception over time, consistently with development of the business model.

With regard to this objective, there exists a risk of defining publishing and communications strategies and initiatives for the financial market and public opinion that have a negative impact on the perception of the Mediaset brand.

The risk of developing publishing and communications initiatives that could have a negative impact on the Mediaset brand is primarily monitored through a constant focus on certain elements and processes. Specifically:

- Programme scheduling is monitored through a daily analysis of television viewers' behaviour, both in terms of audience share and rating of the programmes broadcast, and, consequently, of viewers' perception of the editorial orientation adopted by the Networks, as well as through ongoing actions to ensure the protection and respect of minors and attention to socially sensitive topics (for more detailed information on these activities, reference should be made to the next section in this Report);
- The communication processes with respect to the financial market and public opinion;
- The production processes and the related ability to generate high-quality/innovative products.

Risks related to the policy regarding the establishment of partnerships and alliances

Historically, the Group has pursued a strategy of external growth based on a policy centred on the establishment of highly targeted partnerships and alliances, with the objective of ensuring the compatibility of business integration and/or internationalisation opportunities identified vis-à-vis the return targets of the initial investment. This type of transaction naturally exposes the Group to risks regarding the issuance of authorisations, the implementation of the underlying business models and business projects and the risk of changes in the political and regulatory scenario in sectors and/or geographical areas other than the usual ones, involving a deterioration of the know-how of participants in partnerships and alliances, and thus entailing a possible risk of loss in value of the investments made.

Risks related to business discontinuance

For an integrated television Group, the risk of business discontinuance mainly refers to the categories described below:

- Risk that the network infrastructure is not adequate to ensure the level of service in terms of availability;
- Risk of a partial coverage failure in the area resulting from a lack of international coordination in the transition to digital technology.

The signal transport and distribution network of the Mediaset Group is owned by subsidiary Elettronica Industriale, which covers 96% of the Italian population with 1,700 technological towers. The company has also obtained from competent authorities the licence of network operator for digital multiplexes on terrestrial frequencies and has stipulated agreements in relation to the DVB-H technology-based broadcasting capacity offerings.

Based on corporate practices, signal transport and distribution systems must meet specific requirements in terms of high availability levels using equipment that ensures a high level of reliability (high availability or Fault Tolerance systems). Moreover, the main signal distribution systems also include backup systems.

The process regarding the design of the network infrastructure is well-established and based on an architecture that uses various alternative resources (radio bridge network, satellite, fibre optics), ensuring, in this way, increased security in signal transport and an ideal infrastructure in terms of reliability.

In addition, corporate practices provide for constant monitoring by each local station in order to guarantee the quality and availability of the television signal, with remote 24-hour monitoring for the main stations, while the others are monitored 19 hours out of 24. The signal control Station (MCR) located in Cologno Monzese also carries out specific controls based on reports by third party customers leasing the network.

Lastly, corporate operating procedures require preventive maintenance actions, which are periodically performed on the equipment.

The second type of risk indicated above refers to the obligation established in Italy to have the transition to digital technology completed by 2012. Mediaset, through its subsidiary Elettronica Industriale, plays a fundamental role in this conversion process, having made investments since 2003 in the development of the transport infrastructure that supports digital technology (Multiplex).

The switch-off to digital has been planned according to a gradual regional transition schedule, with the ultimate objective of completing it within the pre-established deadline of 2012.

DGTVi, the association grouping all Italian free-to-air broadcasters, local television federations and RTI, has played an important role in the promotion and dissemination of digital terrestrial technology in Italy.

For more detailed information regarding the data on national digital terrestrial distribution and coverage, timing and the implementation criteria for the switch-off process, reference should be made to the appropriate section of this report dedicated to the description of the Group's activities.

Financial risks

The high level of free cash flow resulting from the core television business in both Italy and in Spain, though increasingly subject to the inevitable ups and downs of the advertising market, has historically enabled the Mediaset Group to rely primarily on its own resources and manage its own growth strategy, both internally and externally, with limited use of debt instruments, thus preserving its financial strength.

The Group's consolidated financial debt structure shows a significant predominance of medium/long term loans and committed lines of credit. This debt structure has enabled the Group to weather the crisis in financial markets during the last few months of 2011 without any particular difficulty either in terms of the availability of credit or in terms of its cost. The proportion of committed loans maturing within the next twelve months is 29%, and these will be covered partly through the Group's own cash flow, partly through applications to renew on maturity, and if necessary through the availability of financial assets than can readily be liquidated (trade receivables, treasury shares).

The Group will assess the need to request new lines of credit in order to ensure that mean financial exposure does not exceed 80% of the total amount currently provided by lenders, as prescribed in the Group's policy on liquidity risk (Policy on Financial Risks, latest version November 2011).

The presence of variable rate debt and the acquisition of television and film rights in currencies other than the euro (mainly the US dollar) clearly expose the Group to risks related to fluctuations in interest and exchange rates. In accordance with its financial risk management policies, the Group, through derivative contracts entered into with third parties, has adopted a management approach for such risks, aimed at eliminating the effect of the exchange rate fluctuations by establishing in advance the value at which such rights will be recognised once acquired, and pre-establishing or limiting the free cash flow differences due to market changes in interest rates on medium/long-term debt.

More detailed information regarding financial risk management policies, including those relative to sensitivity analyses on exchange rates and interest rates can be found in the specific section of the Explanatory Notes in the Group's Consolidated Financial Statements under "Additional disclosures about financial instruments and risk management policies".

Risks connected with the management of legal disputes

Due to the nature of its business, the Group is subject to the risk of legal litigation in the performance of its activities. In view of current obligations relating to past events of a legal or contractual nature or deriving from statements or actions taken by the company that could give rise to well-founded expectations by third parties that the company is responsible for or has to accept responsibility vis-à-vis the fulfilment of any obligation, the Group has made appropriate allocations to risk provisions, recognised under liabilities in the Group's financial statements.

For more detailed information regarding the main legal disputes that are currently pending, reference should be made to the comments included in the specific section of the Explanatory Notes.

Risks connected with environmental policy

The Group must comply with a number of norms and regulations on environmental protection, the most relevant of which primarily govern electromagnetic fields and the Group's development and management of television signal broadcasting networks in Italy.

In Italy, exposure to electrical, magnetic and electromagnetic fields is governed by Italian Framework Law no.36 of 2001 and Italian Presidential Decree of the Council of Ministers of 8/7/2003, which establish exposure thresholds for fields and equipment that generate electrical, magnetic and electromagnetic fields with a frequency ranging between 100 kHz and 300 GHz, as shown in the table below:

	Electrical field intensity E (V/m)	Magnetic field intensity H (A/m)	Power density D (W/m²)
Exposure threshold ¹	20	0.05	1
Attention threshold ²	6	0.016	0.10
Quality objective ³	6	0.016	0.10

Exposure limit: this is the value of the electrical, magnetic and electromagnetic field, regarded as the value of reference, defined for the purpose of protecting human health from severe damage, which should not be exceeded under any condition of exposure of the population and workers.

Attention value: this is the value of the electrical, magnetic and electromagnetic field, regarded as the value of reference, which should not be exceeded in residential areas, schools and places of extended stay.

Quality goals are as follows:

- Location criteria, urban-planning standards, requirements and incentives for the use of the best available technologies, as indicated in regional laws;
- The electrical, magnetic and electromagnetic field values, defined by the government for the purpose of progressive mitigation of exposure to such fields.

Despite extensive concerns linked to the effects of electromagnetic fields, the World Health Organisation and all the latest updates of the scientific literature have concluded that current evidence is not sufficient to prove any health damage deriving from exposure to weak electromagnetic fields. Thus, compliance with the exposure thresholds recommended by domestic and international guidelines makes it possible to monitor the risks of exposure to electromagnetic fields, which may be harmful to human health.

¹ Exposure threshold: this is the value of the electrical, magnetic and electromagnetic field, regarded as the value of reference, defined for the purpose of protecting human health from severe damage, which should not be exceeded under any condition of exposure of the population and workers.

² Attention threshold: this is the value of the electrical, magnetic and electromagnetic field, regarded as the value of reference, which should not be exceeded in houses, schools and places of extended stay.

³ The quality objectives are:

Identification criteria, urban-planning standards, prescriptions and incentives for the use of the best available technologies, as indicated by relevant regional laws;

The electrical, magnetic and electromagnetic field values, defined by the government for the purpose of progressive mitigation of exposure.

Moreover, the thresholds under Italian regulations are up to 100 times lower than those defined by ICNIRP (International Commission on Non-Ionising Radiation Protection) and applied in the rest of Europe.

The critical factors regarding compliance with legal limits include the following:

- The need to emit high power levels;
- The difficulty of erecting tall towers for the installation of transmission antennas;
- The proximity of residential properties to the station or the issuance by Municipalities of new permits for the construction of residential units close to the plants;
- The presence on the same site of other broadcasters (specifically radio broadcasters), who frequently operate equipment that does not comply with their concessions, exceeding the limits on the total emissions generated.

Mediaset plants are designed, developed and managed in compliance with Italian law. In accordance with the Group's operating practices, all the necessary measures are taken during the design stage of new sites or modification of existing ones in order to keep electromagnetic pollution within the parameters established by the regulations in force, including:

- The construction of tall towers for transmission antennas in order to keep them as far as possible from areas accessible to the population;
- Improved orientation of transmission antennas in order to use less power and minimise the portion of emissions detectable at ground level (area accessible to the population);
- Identification, where possible, of installation sites far from residential areas;
- Submission of the project for the preventive assessment and authorisation of local authorities and Regional Agencies for Environmental Protection, as established by the Code of Electronic Communications (Legislative Decree 259/03).

In addition, specific corporate areas are responsible for mapping plants that risk electromagnetic pollution and for the definition of monitoring plans through the use of internal and external resources (certified external advisors).

Risks connected with Governance

The typical Governance-related risks, such as the risk of non-compliance with the laws and regulations, improper assignment of powers and authorities, and inappropriate remuneration policies, are mitigated by implementation of a strong system of Corporate Governance.

In fact, since the year 2000, Mediaset has implemented the provisions set out in the Corporate Governance Code for Listed Companies and has continued to bring its own Corporate Governance system over time in line with the relative domestic and international best practices, the recommendations of the Corporate Governance Code of Borsa Italiana and the regulatory provisions on this matter. For more detailed information on the Group's organisational structure and Corporate Governance, reference should be made to the *Annual Report on Corporate Governance and the Ownership Structure*.