



Interim Management Statement at 30 September 2011

(1st quarter of fiscal year 2011-2012)

Digital Bros S.p.A.

Via Tortona, 37 – 20144 Milan, Italy

VAT and tax identification no. 09554160151

Share capital: EUR 5,644,334.80 fully paid-in

Milan Companies Register no. 290680 - Vol. 7394 Chamber of Commerce no. 1302132

This report can be downloaded from the Investor Relations section
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OFFICERS AND CONTROL

Board of directors

Abramo Galante	Chairman and managing director (1)
Raffaele Galante	Managing director (1)
Davide Galante	Director (2)
Guido Guetta	Director (3)
Stefano Salbe	Director (1) (4)
Dani Schaumann	Director (3)
Bruno Soresina	Director (2)
Dario Treves	Director (2)

(1) Executive directors

(2) Non-executive directors

(3) Independent directors

(4) Financial reporting officer per Art. 154 *bis* of Legislative Decree 58/98

Internal control committee

Guido Guetta
Dani Schaumann
Bruno Soresina

Compensation committee

Guido Guetta
Dani Schaumann
Bruno Soresina

Board of statutory auditors

Sergio Amendola	Chairman
Franco Gaslini	Standing auditor
Paolo Villa	Standing auditor
Enrico Muscato	Alternate auditor
Carlo Garzia	Alternate auditor

The terms of office of the directors and statutory auditors will end with the shareholders' meeting that approves the financial statements at 30 June 2014.

On 28 October 2011 the board of directors granted to managing directors Abramo Galante and Raffaele Galante powers of ordinary and extraordinary administration, to be exercised individually up to amounts of €5,000,000 and jointly for amounts in excess of that figure. The managing directors do not have authority over the matters reserved to the board of directors or those reserved by law or by the company's by-laws to the shareholders.

By resolution of 7 August 2007, the board of directors appointed board member Stefano Salbe to the position of financial reporting officer pursuant to Art. 154 *bis* of Legislative Decree 58/98, granting the appropriate powers.

External auditors

Reconta Ernst & Young S.p.A.

At the meeting of 30 October 2007 the shareholders renewed Reconta Ernst & Young's assignment to audit the separate and consolidated financial statements until approval of the accounts at 30 June 2012.

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INTERIM DIRECTORS' REPORT

1. GROUP STRUCTURE

The Digital Bros Group publishes, distributes and markets video games on a worldwide scale.

Along with more than 20 years' experience in localizing and distributing video games in the Italian market (Italian Distribution segment), the Group has developed a process of upstream integration into international video game publishing and distribution (International Publishing segment). The costs, revenues, assets and liabilities from distributing video games and DVDs through newsstands (in Italy only) are shown in a separate Newsstands segment. Operations in the media industry, through the online distribution and sale of video games and the supply of Internet digital entertainment (New Media segment), have been discontinued.

The Holding segment is responsible for costs not directly associated with the operating segments listed above, but which are necessary for coordinating Group activities. This includes the implementation of sound financial policies to support the Group's operations, management of the office buildings, brand management, and so forth.

Group operations are divided into the five segments described below.

Italian Distribution: the distribution in Italy of video games acquired from international publishers. The games are marketed directly, through key accounts and a network of sales representatives.

This is conducted by Digital Bros S.p.A. under the Halifax brand, and by the subsidiary Game Service S.r.l., which specializes in rack jobbing (the exclusive management of gaming displays at retail chains).

The Group also distributes Yu-Gi-Oh! trading cards in Italy.

International Publishing: the acquisition of video game rights from developers and their distribution by way of an international sales network. These operations differ from those of the Italian Distribution segment because the games are produced under license with international exploitation rights valid for several years.

505 Games is the tradename used by the Group worldwide in the International Publishing segment.

Publishing entails a greater risk of failure than distribution, but offers higher revenues and margins if the products turn out to be best sellers.

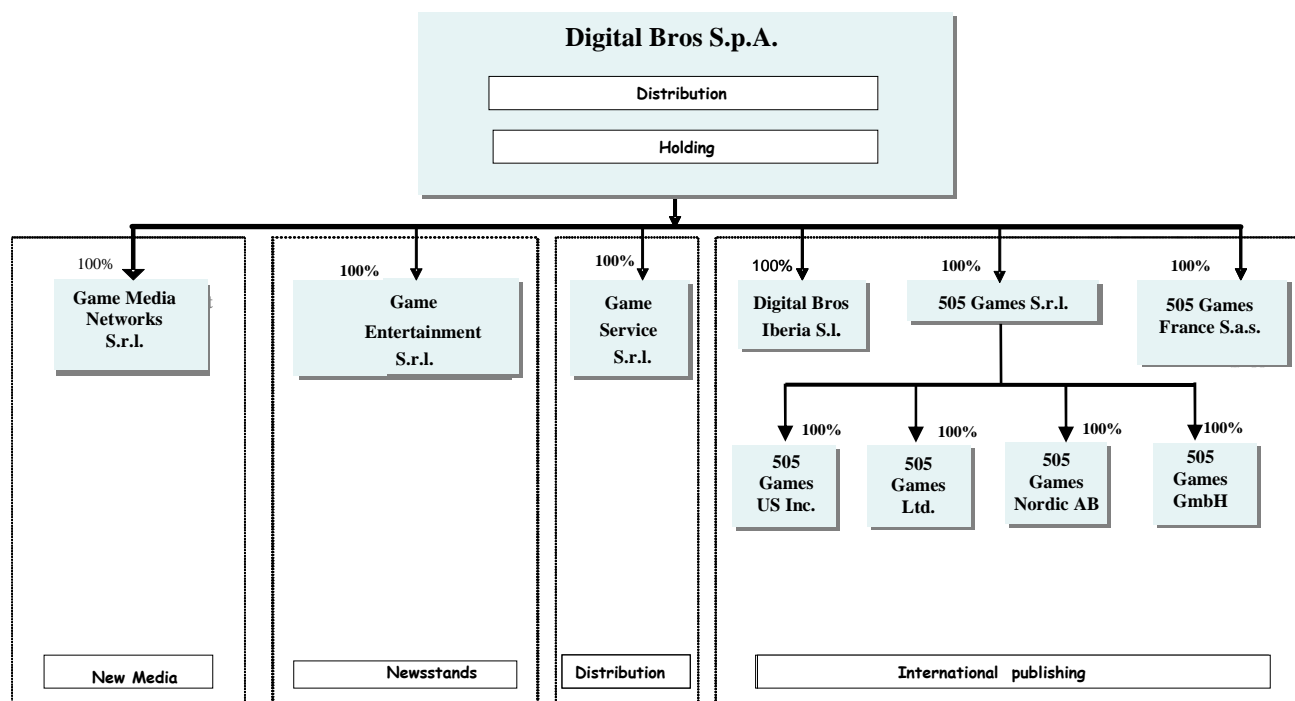
International Publishing operations are handled by the subsidiary 505 Games S.r.l. (coordinator), together with 505 Games France S.a.s., 505 Games Ltd., 505 Games US Inc., and Digital Bros Iberia S.l operating respectively in the French, U.K., U.S. and Spanish markets. The German company 505 Games GmbH and the Swedish company 505 Games Nordic AB market the products of 505 Games S.r.l. in German-speaking countries and Scandinavia.

New Media: this segment covers all forms of interactive entertainment distributed over the new media. Digital entertainment content is provided over channels such as mobile phones, e-commerce, d-commerce and IP TV, and was managed by the subsidiary Game Media Networks S.r.l. Due to unsatisfactory results, the Group shut down the European online gaming portal www.gametribe.com on 31 December 2009 and subsequently discontinued operations in this segment.

Newsstands: the distribution of video games in Italy as newspaper or magazine add-ons, and the distribution through newsstands of entertainment-related publications. Operations in this segment are conducted by the subsidiary Game Entertainment S.r.l.

Holding: the parent company, Digital Bros S.p.A., directly handles all coordination functions for the different segments, including the management of investment property and corporate brands and the implementation of financial policies to support Group operations.

The following chart presents the Group's structure by business segment in the first three months of the year.



During the period the Group operated from the following locations:

Company	Address	Function
Digital Bros S.p.A.	Via Tortona 37, Milan	Offices
Digital Bros S.p.A.	Via Petrella, Trezzano sul Naviglio (MI)	Logistics
505 Games France S.a.s.	2, Chemin de la Chauderaie, Francheville, France	Offices
Digital Bros Iberia S.l.	Calle Londres 38, Las Rozas de Madrid, Spain	Offices
Game Entertainment S.r.l.	Via Tortona 37, Milan	Offices
Game Media Networks S.r.l.	Via Tortona 37, Milan	Offices
Game Service S.r.l.	Via Tortona 37, Milan	Offices
505 Games S.r.l.	Via Tortona 37, Milan	Offices
505 Games Ltd.	Court Silbury Boulevard, Milton Keynes, U.K.	Offices
505 Games US Inc.	Burbank Blvd. Suite 100, Woodland Hills, CA, U.S.A.	Offices
505 Games GmbH	Brunnfeld 2-6, Burglengenfeld, Germany	Offices
505 Games Nordic AB	Dragarbrunnsgatan 45, 3 tr, Uppsala, Sweden	Offices

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2. THE VIDEO GAMES MARKET

The video games market is a major segment of the entertainment industry. Movies, publishing, and toys are businesses that often build on the same characters and brands. Video games also share these characteristics, and can be hits or flops depending on consumer response. At the moment, the video games market is estimated to have outgrown cinema and home video combined.

The gaming industry owes its rapid growth to several underlying factors. First of all, constant technological progress has made games increasingly polished in terms of look, playability and depth of content. Next, the average age is constantly rising as those who start to play when young continue to do so at a later age; this means that the number of players keeps expanding and the market produces games for an ever more mature audience. Growing just as fast is the market of video games for female players, who in recent years have become avid leisure time fans.

The video games market for the Sony Playstation 3 and Microsoft Xbox 360 performs in cycles, in parallel with the life cycle of the consoles themselves. With the rollout of a given console, the price of the hardware and the video games is high, and relatively small quantities are sold. Console and game prices then gradually go down, as they progress from new releases to maturity, but the quantities sold increase along with the quality of the video games. The games market for a given console usually peaks in its fifth year on the market. The lifespan for consoles is currently around seven years.

The value chain for the sector is fairly elaborate, consisting of five main figures who often play more than one role in the market:



Developers are those who create and program the game, which is usually based on an original idea, a hot brand, a film, a book and/or a cartoon, but can also take the form of simulation games that mimic sports, racecar driving, etc. The developers retain the intellectual property rights, but they transfer the exploitation rights—for a limited amount of time agreed by contract—to international video game publishers, who are therefore crucial for completing the game and giving it a global reputation and clientele.

For developers, publishers are the links of the value chain that allow the game to reach the consumer, as most of them are equipped with direct and indirect sales networks in various countries. They also finance the phases of development and implement communication strategies to maximize international sales. The

publisher decides on a game's release schedule, price, international sales policy, positioning, and package design, while taking on all of the risks and rewards that the game may generate.

The console manufacturer is the company that designs, engineers, produces and markets the hardware on which the consumer plays the game. Sony is the console manufacturer for Sony Playstation 3, Sony Playstation 2 and Sony PSP; Microsoft is the console manufacturer for Microsoft Xbox and Microsoft Xbox 360; and Nintendo is the console manufacturer for Nintendo DS, Nintendo Wii and Nintendo 3DS.

The console manufacturer also physically produces the games, using its own printing equipment. The game must be approved in advance by the manufacturer, through a process known as submission. Only publishers selected in advance will be allowed to publish games by the console manufacturer, according to a licensing publishing agreement. The console manufacturer and the video game publisher are often one and the same.

The console manufacturer directly manages the online platform where players can interact with one another from every corner of the globe. Games sold online are fairly simple ones with relatively small files to download, although the exclusive distribution of games through online channels is becoming more and more widespread. Online channels allow publishers to extend a product's life by releasing updates or even new episodes of especially popular games. Sony manages the online channel PSN, Microsoft has XBox Live, and Nintendo does business through Wii Ware.

The role of the distributor varies from market to market. The more a market is fragmented, like Italy's, the more the distributor's role is integrated with that of the publisher—making it a sort of co-publisher that sets specific communication policies for a local audience and takes care of public relations. In some markets, like the U.K., dealers are highly concentrated so publishers usually have a direct commercial presence. The situation in France and Spain is somewhere between that of the British and the Italian markets, while the U.S. market is even more evolved than its counterpart in the United Kingdom.

The dealer is the outlet where the consumer buys the game. Dealers can be international chains specialized in the sale of video games, mass retail stores, specialized independent shops, online stores, or web-based channels set up by the console manufacturer.

In Italy, the market is made up approximately 50% of mass retail outlets and 50% of independent, specialized stores often grouped into chains. The Group has therefore set up an internal key account network to serve the former and a team of sales representatives to serve the latter.

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3. SEASONAL TRENDS

The video game distribution market has some typical seasonal trends. Consumers are most likely to buy in the autumn, due to the approaching holidays and the imminent cold season when they spend more of their free time indoors. This is why video game publishers prefer to launch their best products in October and November.

These trends have a strong impact on the structure of the Group's income statement and balance sheet. As far as revenues and costs are concerned, fixed costs tend to be under- or over-absorbed. Their higher or lower impact on margins is quite apparent in the second quarter of the fiscal year (over-absorption of fixed costs, hence greater margins in both absolute and percentage terms), which is usually when the Group makes 40-50% of its annual sales, and during the first quarter of the year (July to September, when fixed costs are under-absorbed and margins and profits are lower), when less than 15% of revenues are earned. In recent years this trend has been changing slightly as publishers have begun to schedule new releases, especially of soccer simulation games, for the month of September.

The financial structure is also closely related to the pattern in sales. Net working capital rises gradually during the first few months of the year, due to the steady increase in finished product inventories and trade receivables. For exactly the opposite reason—a decrease in inventories and receivables—net working capital tends to fall off during the second six months. The same trend is reflected in net financial position, which reaches a high toward the close of the calendar year.

Seasonal trends can be influenced by launching hit products at times other than the traditional Christmas period. Specifically, quarter-on-quarter results can appear to be volatile depending on whether or not a new game is released during the three-month period. The launch of these products causes sales to build up just before the official release date, known as "day one."

4. SIGNIFICANT EVENTS DURING THE PERIOD

There was only one significant event during the first three months of 2011-2012:

- 23 September 2011: Digital Bros France S.a.s., as decided by its sole shareholder Digital Bros S.p.A., changes its name to 505 Games France S.a.s.

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5. ECONOMIC PERFORMANCE IN THE QUARTER ENDED 30 SEPTEMBER 2011

Below are the Group's results for the quarter ended 30 September 2011, with comparative figures for the first three months of last year:

	EUR/000	1Q 2011-2012		1Q 2010-2011		Change	
1	Gross revenues	51,299	112.4%	32,584	116.5%	18,715	57.4%
2	Revenue adjustments	(5,650)	-12.4%	(4,612)	-16.5%	(1,038)	22.5%
3	Net revenues	45,649	100.0%	27,972	100.0%	17,677	63.2%
4	Purchase of goods for resale	(24,586)	-53.9%	(16,138)	-57.7%	(8,448)	52.3%
5	Purchase of services for resale	(2,771)	-6.1%	(265)	-0.9%	(2,506)	n.a.
6	Royalties	(8,280)	-18.1%	(2,277)	-8.1%	(6,003)	n.a.
7	Change in inventories of finished products	2,416	5.3%	(1,806)	-6.5%	4,222	n.a.
8	Total cost of goods sold	(33,221)	-72.8%	(20,486)	-73.2%	(12,735)	62.2%
9	Gross profit (3+8)	12,428	27.2%	7,486	26.8%	4,942	66.0%
10	Other income	32	0.1%	39	0.1%	(7)	-17.0%
11	Cost of services	(4,707)	-10.3%	(3,447)	-12.3%	(1,260)	36.6%
12	Rent and leasing	(274)	-0.6%	(282)	-1.0%	8	-2.9%
13	Payroll costs	(2,679)	-5.9%	(3,086)	-11.0%	407	-13.2%
14	Other operating expenses	(529)	-1.2%	(404)	-1.4%	(125)	30.9%
15	Total operating expenses	(8,189)	-17.9%	(7,219)	-25.8%	(970)	13.4%
16	EBITDA (9+10+15)	4,271	9.4%	306	1.1%	3,965	n.a.
17	Depreciation and amortization	(178)	-0.4%	(195)	-0.7%	17	-9.1%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses	0	0.0%	0	0.0%	0	0.0%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	Total deprec./amort., provisions and impairment	(178)	-0.4%	(195)	-0.7%	17	-9.1%
22	EBIT (16+21)	4,093	9.0%	111	0.4%	3,982	n.a.
23	Interest income	877	1.9%	203	0.7%	674	n.a.
24	Interest expense	(912)	-2.0%	(1,405)	-5.0%	493	-35.1%
25	Net interest income (expense)	(35)	-0.1%	(1,202)	-4.3%	1,167	-97.1%
26	Profit before taxes (22+25)	4,058	8.9%	(1,091)	-3.9%	5,149	n.a.
27	Current taxes	(1,325)	-2.9%	(387)	-1.4%	(938)	n.a.
28	Deferred taxes	(24)	-0.1%	661	2.4%	(685)	n.a.
29	Total taxes	(1,349)	-3.0%	274	1.0%	(1,623)	n.a.
30	Net profit (26+29)	2,709	5.9%	(817)	-2.9%	3,526	n.a.
Earnings per share:							
33	Basic earnings per share (in EUR)	0.20		(0.06)		0.26	n.a.
34	Diluted earnings per share (in EUR)	0.20		(0.06)		0.26	n.a.

The first three months of the year have confirmed the upturn that began to emerge during the final quarter of 2010-2011. In the international market, the Nintendo Wii game ZUMBA® Fitness held the top spot on the European (and particularly U.K.) charts for several weeks after its release in April, and continued to sell briskly during the first quarter.

The Group also enjoyed the success of the video game Rugby World Cup 2011, whose launch was timed to coincide with the actual sporting event.

As it did in the first quarter of 2010-2011, the Italian Distribution segment benefited from the release of this year's version of the soccer simulation game Pro Evolution Soccer (PES).

Gross revenues came to €51,299 thousand, an increase of €18,715 thousand (+57.4%), while net revenues amounted to €45,649 thousand and increased by €17,677K (+63.2%).

Below is the breakdown of first-quarter revenues by business segment for this and the previous year:

EUR/000	Gross revenues				Net revenues			
	1Q11-12	1Q10-11	Change		1Q11-12	1Q10-11	Change	
Italian Distribution	23,640	22,750	890	3.9%	20,048	20,653	(605)	-2.9%
Newsstands	0	193	(193)	-100.0%	0	186	(186)	-100.0%
New Media	0	0	0	0.0%	0	0	0	0.0%
International Publishing	27,659	9,641	18,018	n.a.	25,601	7,133	18,468	n.a.
Total gross revenues	51,299	32,584	18,715	57.4%	45,649	27,972	17,677	63.2%

Gross revenues in the Italian Distribution segment grew by 3.9%, while net revenues decreased by 2.9%. This reflects greater provisions for credit notes to be issued for potential returns, even if not payable by contract.

Net revenues in the International Publishing segment increased by €18,468 thousand (from €7,133K in the first quarter of 2010-2011 to €25,601K), outpacing the rise in gross revenues.

No revenues were earned by the Newsstands segment as no new products were distributed during the period.

The cost of goods sold went up by €12,735 thousand (+62.6%), in line with the trend in net revenues.

The increase in operations helped improve the gross profit by €4,942 thousand, to €12,428K.

Operating expenses rose by €970 thousand or 13.4%, growing by a slower pace than revenues. Most of the increase is explained by a rise of €1,260 thousand in the cost of services, due to greater advertising investments and transport costs in parallel with the growth of revenues, which was partially offset by a decrease in payroll costs of €407 thousand.

As a result, EBITDA grew from €306 thousand to €4,271 thousand, for an increase of €3,965K with respect to the previous year.

Depreciation, amortization, provisions and impairment of €178 thousand refer exclusively to depreciation and amortization and showed practically no change.

EBIT increased by €3,982 thousand, from €111 thousand to €4,093 thousand.

Net interest expense decreased from €1,202 thousand for the first quarter of 2010-2011 to €35 thousand this year, due mainly to the positive impact of the appreciation of the GBP/EUR and USD/EUR exchange rates on the parent company's financial receivables.

The net profit for the quarter ended 30 September 2011 came to €2,709 thousand, compared with a loss of €817 thousand for the first three months of last year, for an improvement of €3,526K.

Basic and diluted earnings per share was €0.20, compared with a loss of €0.06 per share for the first quarter of 2010-2011.

The Group's performance in its various business segments, including through subsidiaries, is presented in greater detail in Section 7.

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6. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2011

The Group's balance sheet is shown below with comparative figures at 30 June 2011:

	EUR/000	30 September 2011	30 June 2011	Change	
	Non-current assets				
1	Property, plant and equipment	3,993	4,104	(111)	-2.7%
2	Investment property	455	455	0	0.0%
3	Intangible assets	385	382	3	0.8%
4	Equity investments	0	0	0	0.0%
5	Non-current receivables and other assets	753	751	2	0.3%
6	Deferred tax assets	5,135	5,159	(24)	-0.5%
	Total non-current assets	10,721	10,851	(130)	-1.2%
	Non-current liabilities				
7	Employee benefits	(431)	(460)	29	-6.3%
8	Non-current provisions	(322)	(316)	(6)	2.2%
9	Other non-current payables and liabilities	0	0	0	0.0%
	Total non-current liabilities	(753)	(776)	23	-3.0%
	Net working capital				
10	Inventories	32,577	30,161	2,416	8.0%
11	Trade receivables	58,065	48,624	9,441	19.4%
12	Tax credits	1,233	1,642	(409)	-24.9%
13	Other current assets	3,790	7,326	(3,536)	-48.3%
14	Trade payables	(15,125)	(11,353)	(3,772)	33.2%
15	Taxes payable	(7,112)	(3,478)	(3,634)	n.a.
16	Current provisions	0	0	0	0.0%
17	Other current liabilities	(3,302)	(3,076)	(226)	7.3%
	Total net working capital	70,126	69,846	280	0.4%
	Capital and reserves				
18	Share capital	(5,644)	(5,644)	0	0.0%
19	Reserves	(19,395)	(19,761)	366	-1.9%
20	Treasury shares	1,574	1,574	0	0.0%
21	(Profits) losses carried forward	(3,036)	(327)	(2,709)	n.a.
	Total capital and reserves	(26,501)	(24,158)	(2,343)	9.7%
	Total net assets	53,593	55,763	(2,170)	-3.9%
	Current net debt				
22	Cash and cash equivalents	6,345	4,750	1,595	33.6%
23	Short-term payables to banks	(47,804)	(50,095)	2,291	-4.6%
24	Other current financial liabilities	(10,530)	(8,761)	(1,769)	20.2%
	Current net debt	(51,989)	(54,106)	2,117	-3.9%
	Non-current net debt				
25	Non-current financial assets	0	0	0	0.0%
26	Non-current payables to banks	(45)	(27)	(18)	62.6%
27	Other non-current financial liabilities	(1,559)	(1,630)	71	-4.4%
	Non-current net debt	(1,604)	(1,657)	53	-3.2%
	Total net debt	(53,593)	(55,763)	2,170	-3.9%

Net working capital was stable with respect to 30 June 2011, rising by just €280 thousand due mainly to an increase of €2,416 thousand in inventories and of €9,441 thousand in trade receivables, which were partially offset by a reduction of €3,536 thousand in other current assets, an increase of €3,772 thousand in trade payables and a rise of €3,634 thousand in taxes payable.

The growth of inventories is temporary, referring primarily to goods in transit at 30 September 2011 awaiting sale in early October.

An analysis of net working capital in comparison with figures at 30 June 2011 is provided below:

EUR/000	30 September 2011	30 June 2011	Change
Inventories	32,577	30,161	2,416
Trade receivables	58,065	48,624	9,441
Tax credits	1,233	1,642	(409)
Other current assets	3,790	7,326	(3,536)
Trade payables	(15,125)	(11,353)	(3,772)
Taxes payable	(7,112)	(3,478)	(3,634)
Current provisions	0	0	0
Other current liabilities	(3,302)	(3,076)	(226)
Total net working capital	70,126	69,846	280

Net debt decreased by €2,170 thousand since 30 June, due mainly to a reduction in short-term payables to banks and an increase in cash and cash equivalents, which were only partially offset by a rise in other current financial liabilities.

For a more in-depth analysis of cash flow, see the consolidated statement of cash flows (attached).

7. PERFORMANCE OF BUSINESS SEGMENTS

Italian Distribution

Key results

	Consolidated figures in EUR/000	Italian Distribution					
		1Q11-12		1Q10-11		Change	
1	Revenues	23,640	117.9%	22,750	110.2%	890	3.9%
2	Revenue adjustments	(3,592)	-17.9%	(2,097)	-10.2%	(1,495)	71.3%
3	Total revenues	20,048	100.0%	20,653	100.0%	(605)	-2.9%
4	Purchase of goods for resale	(14,366)	-71.7%	(13,861)	-67.1%	(505)	3.6%
5	Purchase of services for resale	0	0.0%	0	0.0%	0	0.0%
6	Royalties	(10)	-0.1%	(4)	0.0%	(6)	n.a.
7	Change in inventories of finished products	1,541	7.7%	(290)	-1.4%	1,831	n.a.
8	Total cost of goods sold	(12,835)	-64.0%	(14,155)	-68.5%	1,320	-9.3%
9	Gross profit (3+8)	7,213	36.0%	6,498	31.5%	715	11.0%
10	Other income	7	0.0%	27	0.1%	(20)	-74.0%
11	Cost of services	(1,663)	-8.3%	(1,366)	-6.6%	(297)	21.7%
12	Rent and leasing	(198)	-1.0%	(190)	-0.9%	(8)	4.4%
13	Payroll costs	(1,066)	-5.3%	(1,247)	-6.0%	181	-14.5%
14	Other operating expenses	(277)	-1.4%	(254)	-1.2%	(23)	9.0%
15	Total operating expenses	(3,204)	-16.0%	(3,057)	-14.8%	(147)	4.8%
16	EBITDA (9+10+15)	4,016	20.0%	3,468	16.8%	548	15.8%
17	Depreciation and amortization	(110)	-0.5%	(130)	-0.6%	20	-15.8%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses	0	0.0%	0	0.0%	0	0.0%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	Total deprec./amort., provisions and impairment	(110)	-0.6%	(130)	-0.6%	20	-15.1%
22	EBIT (16+21)	3,906	19.5%	3,338	16.2%	568	17.0%

Gross revenues earned by the Italian Distribution segment came to €23,640 thousand for the quarter, an increase of €890 thousand compared with the first three months of last year.

The breakdown of gross revenues by type of game distributed is as follows:

EUR/000	1Q11-12	1Q10-11	Change	
Distribution of video games for consoles	20,142	19,082	1,060	5.5%
Distribution of video games for PC/CD-ROM	1,142	987	155	16.0%
Distribution of trading cards	2,147	2,843	(696)	-24.5%
Distribution of other products and services	430	42	388	n.a.
Financial discounts	(221)	(204)	(17)	8.8%
Total gross Italian Distribution revenues	23,640	22,750	890	3.9%

For a better understanding of gross revenues from the distribution of console games, the following table shows units sold and revenues per console:

EUR/000	1Q11-12		1Q10-11		Change	
	Units	Revenues	Units	Revenues	Units	Revenues
Sony Playstation 2	6,685	43	19,865	142	-66.3%	-69.9%
Sony Playstation 3	319,982	12,421	244,268	11,985	31.0%	3.6%
Nintendo Wii	54,739	1,440	33,411	1,100	63.8%	30.9%
Microsoft Xbox 360	134,182	4,948	66,675	3,190	101.2%	55.1%
Nintendo DS/DSI	90,020	1,155	84,032	1,719	7.1%	-32.8%
Sony PSP	13,221	134	44,866	933	-70.5%	-85.6%
Other consoles	146	1	1,274	13	-88.5%	n.a.
Total console revenues	618,975	20,142	494,391	19,082	25.2%	5.5%

In the table above we can see how the percent increase in revenues from certain consoles, such as Sony Playstation 3, Nintendo Wii and Microsoft Xbox 360, was lower than the increase in units sold, due to the decline in average unit prices as shown clearly below:

EUR/000	1Q11-12	1Q10-11	Change
Sony Playstation 2	6.40	7.10	-10.5%
Sony Playstation 3	38.80	49.20	-21.1%
Nintendo Wii	26.30	33.00	-20.3%
Microsoft Xbox 360	36.90	47.90	-23.0%
Nintendo DS	12.80	20.50	-37.3%
Sony PSP	10.10	20.80	-51.2%
Weighted average price	32.50	38.70	-15.9%

The above table emphasizes the typical price trends in the video games market. Games for new-generation consoles (Sony Playstation 3 and Microsoft Xbox 360) are priced above average, while games for older ones cost less, and their prices continue to go down until the console is completely phased out. When a console is mature, price drops are steeper and the games cost well below average. Generally speaking, games for handheld consoles (Nintendo DS and Sony PSP) cost less than games for other hardware. Due to the above, the weighted average retail price of €32.50 is 15.9% lower than the €38.70 reported for the first three months of last year.

The next table shows how video games for new-generation consoles account for a higher share of revenues than games for older consoles.

EUR/000	1Q11-12	1Q10-11
Sony Playstation 2	0.2%	0.7%
Sony Playstation 3	61.7%	62.9%
Nintendo Wii	7.2%	5.8%
Microsoft Xbox 360	24.6%	16.7%
Nintendo DS	5.7%	9.0%
Sony PSP	0.6%	4.9%
Total console revenues	100%	100%

The quarter benefited from the successful launch of the Pro Evolution Soccer 2012 simulation game in the version for Sony Playstation 3 and Microsoft Xbox 360, and of Deus Ex for the same consoles.

Because these were the two main releases during the quarter, the combined weight of the two platforms increased to 86.3% of total console revenues.

Net revenues amounted to €20,048 thousand, a decrease of 2.9% on the first quarter of 2010-2011. This reflects greater provisions for credit notes to be issued for potential returns, even if not payable by contract.

The gross profit, at €7,213 thousand, increased by €715 thousand and came to 36% of net revenues, up from 31.5% the previous year.

Operating costs rose during the period by €147 thousand. This is the net impact of an increase in the cost of services (+21.7%) due to greater advertising investments, less a 14.5% decline in payroll costs.

As a result, EBIT increased by €568 thousand with respect to the first three months of last year, from €3,338 thousand to €3,906 thousand.

New Media

Comparative results for the New Media segment are not reported, as the group shut down the European gaming portal www.gametribe.com on 31 December 2009.

Starting with the next half-year this segment will include revenues and costs from the distribution of games over the Internet, and for the most part, revenues and costs from games published on Sony PSN, Microsoft Xbox Live and Nintendo Wii Ware.

International Publishing

Key results

	Consolidated figures in EUR/000	International Publishing					
		1Q11-12		1Q10-11		Change	
1	Revenues	27,659	108.0%	9,641	135.2%	18,018	n.a.
2	Revenue adjustments	(2,058)	-8.0%	(2,508)	-35.2%	450	-17.9%
3	Total revenues	25,601	100.0%	7,133	100.0%	18,468	n.a.
4	Purchase of goods for resale	(10,220)	-39.9%	(2,171)	-30.4%	(8,049)	n.a.
5	Purchase of services for resale	(2,771)	-10.8%	(233)	-3.3%	(2,538)	n.a.
6	Royalties	(8,270)	-32.3%	(2,273)	-31.9%	(5,997)	n.a.
7	Change in inventories of finished products	875	3.4%	(1,516)	-21.3%	2,391	n.a.
8	Total cost of goods sold	(20,386)	-79.6%	(6,193)	-86.8%	(14,193)	n.a.
9	Gross profit (3+8)	5,215	20.4%	940	13.2%	4,275	n.a.
10	Other income	25	0.1%	12	0.2%	13	n.a.
11	Cost of services	(3,009)	-11.8%	(2,031)	-28.5%	(978)	48.2%
12	Rent and leasing	(76)	-0.3%	(92)	-1.3%	16	-17.3%
13	Payroll costs	(1,298)	-5.1%	(1,525)	-21.4%	227	-14.9%
14	Other operating expenses	(200)	-0.8%	(125)	-1.7%	(75)	60.5%
15	Total operating expenses	(4,583)	-17.9%	(3,773)	-52.9%	(810)	21.5%
16	EBITDA (9+10+15)	657	2.6%	(2,821)	-39.6%	3,478	n.a.
17	Depreciation and amortization	(47)	-0.2%	(44)	-0.6%	(3)	6.9%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses	0	0.0%	0	0.0%	0	0.0%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	Total deprec./amort., provisions and impairment	(47)	-0.2%	(44)	-0.6%	(3)	6.9%
22	EBIT (16+21)	610	2.4%	(2,865)	-40.2%	3,475	n.a.

The first three months of the year have confirmed the upturn that began to emerge during the final quarter of 2010-2011. In the international market, the Nintendo Wii game ZUMBA® Fitness held the top spot on the European (and particularly U.K.) charts for several weeks after its release in April, and continued to sell briskly during the first quarter.

The Group also enjoyed the success of the video game Rugby World Cup 2011, whose launch was timed to coincide with the actual sporting event.

Gross revenues increased by €18,018 thousand, from €9,641 thousand in the first quarter of 2010-2011 to €27,659K, while net revenues grew by €18,468 thousand (from €7,133K to €25,601K).

Revenue adjustments include discounts granted to customers at the end of the contractual period (known as year-end discounts), and an estimate of potential credit notes that the Group will have to issue as a result of returned merchandise and/or price differentials granted to customers to make up for product obsolescence, which is common practice in the international markets. The decrease in revenue adjustments reflects the popularity of ZUMBA® Fitness and Rugby World Cup 2011, meaning that the costs required for potential price reductions to buyers were minimal.

As in the Italian Distribution segment, the Group is strongly oriented toward games for consoles. The breakdown of gross revenues by type of video game is presented in the table below:

EUR/000	1Q11-12	1Q10-11	Change	
Publishing of video games for consoles	27,391	9,436	17,955	n.a.
Publishing of video games for PC/CD-ROM	268	205	63	30.9%
Gross revenues	27,659	9,641	18,018	n.a.

For a better understanding of gross revenues from console games in the International Publishing segment, the following table shows units sold and revenues per console:

EUR/000	1Q11-12		1Q10-11		Change	
	Units	Revenues	Units	Revenues	Units	Revenues
Sony Playstation 3	330,695	8,973	47,682	898	n.a.	n.a.
Nintendo Wii	507,894	9,880	197,803	3,952	n.a.	n.a.
Microsoft Xbox 360	319,427	8,288	75,126	1,547	n.a.	n.a.
Nintendo DS	23,154	242	224,495	2,986	-89.7%	-91.9%
Sony PSP	815	8	4,077	53	-80.0%	-85.5%
Total console revenues	1,181,985	27,391	549,183	9,436	n.a.	n.a.

The success of ZUMBA® Fitness and Rugby World Cup 2011 had a positive influence on the sale of games for Nintendo Wii and Microsoft Xbox 360 and for Microsoft Xbox 360 and Sony Playstation 3, respectively.

The following table reports average weighted prices by type of console:

EUR/000	1Q11-12	1Q10-11	Change
Sony Playstation 3	27.1	23.7	14.5%
Nintendo Wii	19.5	20.0	-2.6%
Microsoft Xbox 360	25.9	20.6	26.0%
Nintendo DS	10.5	13.3	-21.4%
Sony PSP	9.4	12.9	-27.4%
Average price	23.2	17.2	34.9%

The growth of average game prices for Microsoft Xbox 360 and Sony Playstation 3 are of little significance, because in the first quarter of the previous year no games were launched for these two consoles. Meanwhile, the average price for Nintendo Wii games was basically unchanged, since only one product (“Grease”) was released in the previous period.

Services for resale refer to localization, video game rating and quality assurance services and totaled €2,771 thousand, up from €233 thousand the previous year, reflecting the higher number of games released this quarter.

Royalty costs increased by €5,997 thousand, in line with the trend in net revenues.

The growth of inventories was caused by the segment's considerable increase in activity, as well as the goods in transit at 30 September 2011 awaiting sale in early October.

As a result of the above, the gross profit increased by €4,275 thousand, from €940 thousand in the first quarter of 2010-2011 to €5,215K this year.

Operating expenses were up by €810 thousand, from €3,773 thousand to €4,583 thousand. The cost of services rose by €978 thousand (+48.2%), due to higher advertising investments and transport costs in line with the increase in turnover. Payroll costs decreased by €227 thousand.

The above performance led to EBIT of €610 thousand, compared with a negative €2,865 thousand for the first quarter of the previous year, for an improvement of €3,475K.

Newsstands

Key results

Consolidated figures in EUR/000		Newsstands					
		1Q11-12		1Q10-11		Change	
1	Revenues	0	0.0%	193	103.9%	(193)	-100.0%
2	Revenue adjustments	0	0.0%	(7)	-3.9%	7	0.0%
3	Total revenues	0	0.0%	186	100.0%	(186)	-99.8%
4	Purchase of goods for resale	0	0.0%	(106)	-56.9%	106	-100.0%
5	Purchase of services for resale	0	0.0%	(32)	-17.5%	32	-100.0%
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Change in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	Total cost of goods sold	0	0.0%	(138)	-74.3%	138	-100.0%
9	Gross profit (3+8)	0	0.0%	48	25.7%	(48)	-100.0%
10	Other income	0	0.0%	0	0.0%	0	0.0%
11	Cost of services	0	0.0%	(19)	-10.1%	19	-100.0%
12	Rent and leasing	0	0.0%	0	0.0%	0	0.0%
13	Payroll costs	0	0.0%	0	0.0%	0	0.0%
14	Other operating expenses	0	0.0%	0	0.2%	0	0.0%
15	Total operating expenses	0	0.0%	(19)	-10.0%	19	-100.0%
16	EBITDA (9+10+15)	0	0.0%	29	15.7%	(29)	-100.0%
17	Depreciation and amortization	0	0.0%	0	0.0%	0	0.0%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses	0	0.0%	0	0.0%	0	0.0%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	Total deprec./amort., provisions and impairment	0	0.0%	0	0.0%	0	0.0%
22	EBIT (16+21)	0	0.0%	29	15.7%	(29)	-100.0%

No new products were distributed through newsstands during the first quarter of the year. In the first three months of 2010-2011 this segment produced EBIT of €29 thousand.

Holding

Key results

	Consolidated figures in EUR/000	Holding					
		1Q11-12		1Q10-11		Change	
1	Revenues	0	0.0%	0	0.0%	0	0.0%
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
3	Total revenues	0	0.0%	0	0.0%	0	0.0%
4	Purchase of goods for resale	0	0.0%	0	0.0%	0	0.0%
5	Purchase of services for resale	0	0.0%	0	0.0%	0	0.0%
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Change in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	Total cost of goods sold	0	0.0%	0	0.0%	0	0.0%
9	Gross profit (3+8)	0	0.0%	0	0.0%	0	0.0%
10	Other income	0	0.0%	0	0.0%	0	0.0%
11	Cost of services	(35)	0.0%	(31)	0.0%	(4)	11.7%
12	Rent and leasing	0	0.0%	0	0.0%	0	0.0%
13	Payroll costs	(315)	0.0%	(314)	0.0%	(1)	0.3%
14	Other operating expenses	(52)	0.0%	(25)	0.0%	(27)	n.a.
15	Total operating expenses	(402)	0.0%	(370)	0.0%	(32)	8.6%
16	EBITDA (9+10+15)	(402)	0.0%	(370)	0.0%	(32)	-8.6%
17	Depreciation and amortization	(21)	0.0%	(21)	0.0%	0	0.0%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses	0	0.0%	0	0.0%	0	0.0%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	Total deprec./amort., provisions and impairment	(21)	0.0%	(21)	0.0%	0	0.0%
22	EBIT (16+21)	(423)	0.0%	(391)	0.0%	(32)	-8.1%

The Holding segment's operating loss increased by €32 thousand, from -€391 thousand the previous year to -€423 thousand.

Operating expenses include directors' fees approved at the latest shareholders' meeting and general and entertainment expenses not allocable to other segments.

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8. INTERCOMPANY AND RELATED PARTY TRANSACTIONS AND ATYPICAL/UNUSUAL TRANSACTIONS

All intercompany and related party transactions within the Digital Bros Group are conducted at arm's length.

The main intercompany transactions are the sale of video games by 505 Games S.r.l. to the local distributors. 505 Games S.r.l. bills royalties to the American subsidiary 505 Games US Inc. for locally distributed products, and also bills it for expenses incurred on its behalf, namely administration, financial management and information services.

The companies 505 Games GmbH and 505 Games Nordic AB perform marketing activities only, and bill their local marketing expenses to 505 Games S.r.l. and 505 Games Ltd., respectively.

505 Games Ltd. bills 505 Games S.r.l. for a portion of the payroll costs incurred for game developers based in the United Kingdom, and for expenses paid on behalf of its Italian parent.

More minor transactions consist of administrative, financial, legal/advisory and general services that are usually performed by Digital Bros S.p.A. for other members of the Group.

The parent company also provides a centralized cash management service, using giro accounts to which the positive and negative balances between Group companies are transferred at least once per quarter, including through the transfer of receivables. The accounts do not bear interest.

Group companies in Italy also transfer tax receivables and payables to Digital Bros S.p.A. under the tax consolidation scheme.

During the quarter, to optimize the group's financial resources, 505 Games S.r.l. transferred to Digital Bros S.p.A. its receivables from NBG EDV GmbH in the amount of €1,732 thousand.

In the interim management statement at 30 September 2011, all effects of intercompany transactions on the balance sheet and income statement have been eliminated.

Related party transactions concern the legal counsel provided by director Dario Treves, and the property leasing arrangement between Matov Immobiliare S.r.l. (owned by the Galante family) and the parent company and 505 Games France S.a.s.

The effects of related party transactions are discussed in Note 13.

There were no atypical or unusual transactions in this or the previous year, as defined by Consob Communication DEM 6064293 of 28 July 2006.

9. TREASURY SHARES

Pursuant to Art. 2428 (2.3) of the Italian Civil Code, at 30 September 2011 Digital Bros S.p.A. owned 525,247 treasury shares.

Pursuant to paragraph 2.4 of that article, we report that in the first quarter of 2011-2012 the company neither purchased nor disposed of treasury shares.

10. RESEARCH AND DEVELOPMENT

The Group did not engage in research and development during this or the previous periods.

11. RISK MANAGEMENT

The Group has implemented a risk mapping process by which the directors and the front-line organizational units attend coordination meetings held throughout the year. Their work is summarized in a risk matrix that is prepared and regularly reviewed by the executive director in charge of control, who attends the coordination meetings. In individual charts, each separate risk is described, given a gross rating according to a probability/impact grid, and assigned a net rating on the basis of mitigating factors and/or steps taken to reduce and monitor the risk. The executive director is assisted in this task by the Internal Control Committee.

The individual risk charts also show the impact that a failure to reach control objectives would have in terms of operations and financial reporting.

The thoroughness of the risk map and the ratings of net risk are assessed jointly by the two managing directors and by the executive director in charge of control.

Risks fall into one of two types: operational risks and financial risks.

Operational risks

The most significant operational risks are:

- dependence on hardware and its success;
- dependence on key customers and bad debt risk;
- hardware lifecycles;
- ability to publish popular games;
- piracy;
- product obsolescence;
- dependence on key employees.

Dependence on hardware and its success

This is the risk of depending on the success of the hardware for which games are designed. Most of the Group's revenues come from the sale of video games for the Sony Playstation 3, Microsoft Xbox 360, Nintendo Wii and Nintendo DS consoles. When signing a development contract, the Group has to pay advances for a game's design and production on the basis of projected demand for these platforms, which takes account of their estimated lifecycles. An error in judging the potential of each gaming platform can lead to a drop in revenues or, if underestimated, a loss of sales potential, with consequences for future performance.

The existence of market research, management's familiarity with the market, and the availability of historical data on hardware ownership are mitigating factors. The Group has also implemented a procedure to analyze all of its current development contracts every six months, in an attempt to lower costs, and a contract acquisition procedure that requires accurate economic projections to be made before signing, by testing future profitability on the basis of different market scenarios.

Dependence on key customers and bad debt risk

During the year, the revenue concentration of the top 10 customers worldwide was about 51%, and that of the top 50 customers was 83%. For the next few years the level of concentration is expected to rise, especially since the Group's revenues are projected to grow in markets like the United States and the United Kingdom, where sales depend on a relatively low number of dealers. The concentration of revenues on a few key customers makes the Group dependent on their business, which in today's volatile economy requires greater prudence in terms of quantity and a better selection of products in terms of quality. The smaller number of customers also increases credit risk. This is mitigated, however, by the fact that the Group's projected sales in Italy are less concentrated than in other markets and will continue to make up a significant percentage of total revenues, at least for the imminent future. The extensive use of credit insurance will also reduce potential losses on bad debts.

In addition, customer and credit management procedures are in place that substantially reduce this risk. See the credit risk section for details.

Hardware lifecycles

The Group mainly distributes video games for the Sony Playstation 3, Microsoft Xbox 360, Nintendo Wii and Nintendo DS consoles, which have traditionally had a lifecycle of seven years. Although it currently appears that this lifecycle could be extended by online features and by new technologies for the consoles now on the market, it could also be drastically shortened once the consoles mature, especially in light of the international economic crisis. The lifespan of their predecessors could also be far shorter than thought. The potential volatility of the market makes it difficult to predict results.

This risk is mitigated by the fact that the Group can significantly reduce operating costs on games scheduled for future release, depending on the forecast trend in consumption.

Ability to publish popular games

The video games market, like the entire entertainment industry, is exposed to many risks outside the Group's control. These include the popularity of celebrities and sports, the platforms players favor, demographic changes in consumption, and the rise of other forms of entertainment. If the Group were unable to please consumers and keep up with the speed of change, its revenues and margins could be deeply affected and its targets could be difficult to meet. This risk is mitigated by the Group's experienced

management and by its content acquisition procedure, which involves closely analyzing the sensitivity of a product's performance to such negative scenarios.

Piracy

Piracy has always been a bane to the video games market and to the entertainment industry in general. The use of peer-to-peer networks and the growing availability and speed of broadband have made it even easier to copy a video game illegally. National laws and anti-piracy systems used by manufacturers reduce this risk substantially, although it varies sharply from one country to the next.

If piracy were to increase, due in part to a weakening of today's legislation, the Group's sales and margins could go down and its forecasts might no longer be reliable. This risk is mitigated by the fact that video game producers (Microsoft, Sony and Nintendo) earn substantial profits from their game production businesses and it is thus to their advantage to develop anti-piracy measures. The increasing use of online features, or even parts or episodes of games that are only available on the servers of Microsoft, Sony and Nintendo, allows better control over authenticity and deprives bootlegs of much of their interest.

Product obsolescence

Entertainment industry products quickly become obsolete, and video games are no exception. A game that is positioned at a certain price is then repositioned at gradually lower ones. The launch price of a game is usually high during the launch of the console, and then decreases throughout the lifecycle of the hardware.

The decision to invest in a certain game is often made years before its actual release. Management must therefore make estimates of the retail prices to be offered in subsequent periods. A sudden acceleration in the obsolescence of the game or its supporting hardware could reduce retail prices, to the detriment of revenues and margins.

In the Italian Distribution segment, purchasing decisions in terms of volumes are often made months in advance, while the contract is being negotiated with publishers, so it is possible that these games will remain unsold and require writedowns for obsolescence. This risk is mitigated by the possibility to reduce the production, marketing and royalty costs paid to developers, thereby minimizing the impact on margins; by awareness of the lifecycles of earlier consoles and advance information on new gaming platforms; and by the chance to ask publishers for rebates to offset inventory impairment losses, especially for games that do not sell well.

Dependence on key employees

Whether the Group is successful depends largely on the performance of some key individuals who have made a solid contribution to its development and acquired valuable experience in the industry.

The Group has an executive team (chairman, managing director and CFO) with many years' experience in the sector and a decisive role in the management of its business. Losing the services of these individuals without their being suitably replaced could have a negative impact on the Group's performance and financial position, and in particular could affect the process of understanding, appreciating and monitoring risks.

In any case, management feels that the Group has an operational and executive structure that can ensure continuity in the handling of business affairs.

Financial risks

The main financial instruments used by the Group are as follows:

- Bank account overdrafts
- Sight- and short-term bank deposits
- Import financing
- Export financing
- Commercial credit lines (factoring)
- Long-term mortgage loans
- Finance leases
- Derivative contracts

The purpose of these instruments is to finance the Group's operating activities.

The parent company Digital Bros S.p.A. manages all financial risks on behalf of itself and its subsidiaries, with the exception of other financial instruments not listed above, namely trade payables and receivables arising from operating activities for which the financial risk is the responsibility of the individual company.

Since 2007-2008 the subsidiary 505 Games S.r.l. has enjoyed its own independent credit facilities to finance its international growth, and since April 2011 the subsidiary 505 Games Ltd. has had access to two international factoring lines, granted by Unicredit Factoring (5 million British pounds) and by the Intesa San Paolo company Mediofactoring (€4 million).

The Group tries to maintain a balance between short-term and medium/long-term financial instruments. The Group's core business, the marketing of video games, entails investments primarily in net working capital which are funded through short-term credit lines. Long-term investments are normally financed through medium/long-term lines, often dedicated to the individual investment, in the form of finance leases.

Given the above, medium- and long-term financial payables have a well-distributed range of maturities.

The main risks generated by the Group's financial instruments are:

- interest rate risk
- liquidity risk
- exchange rate risk
- credit risk

Interest rate risk

The Group's exposure to interest rate fluctuations is marginal with respect to its medium- and long-term financial instruments, which were originally designated as fixed-rate instruments or have been converted into fixed rates using appropriate derivative agreements.

For short-term financial instruments, the possibility of rising interest rates is an effective risk, because the Group cannot immediately transfer the higher rates to its prices. These risks are reduced by:

- the availability of an interconnected series of short-term credit lines, allowing it to borrow under the most favorable conditions. Specifically, the company has access to fiduciary credit whose conditions are less volatile than interest rates;
- the degree of short-term borrowings, which varies substantially on the basis of seasonal trends in the video games market;
- the implementation of short-term cash flow procedure that constantly monitors the trend in short-term debt and allows preventive action to be taken when interest rates are expected to rise.

Liquidity risk

Liquidity risk arises if it becomes difficult or impossible to obtain, under sustainable conditions, the financial resources needed to operate the business.

The factors that influence the Group's financial needs are the resources generated or absorbed by operating and investing activities; the maturity and renewal terms of debt and the liquidity of investments; and current conditions and available funds in the credit market.

The Group has reduced this risk by:

- setting up the centralized management of treasury procedures and therefore of credit lines;
- obtaining credit that allows the creation of a sustainable liability structure, through the use of irrevocable credit lines and medium- or long-term loans;
- monitoring prospective liquidity conditions.

Given the results of short- and medium/long-term planning, currently available funds, along with those to be generated by operating activities, should allow the Group to satisfy its requirements as far as investment, working capital management, and debt repayment at natural maturity are concerned and in any case to determine financial requirements well ahead of time.

Exchange rate risk

The Group is not heavily influenced by exchange rate fluctuations, with the exception of the British pound. Purchases in currencies other than the euro are marginal, and are almost entirely in British pounds and U.S. dollars due to the manufacturing and structural costs of the subsidiaries 505 Games Ltd. and 505 Games US Inc.

Royalties on international video game exploitation rights are paid partly in Japanese yen. Payments are made in advance, so the Group knows the actual cost of royalties ahead of time and is able to transfer any higher charges due to exchange rates onto its prices.

The Group's exposure in USD due to the opening of the United States subsidiary is mitigated by the fact that it has many game development contracts in that currency, so any negative changes in the EUR/USD exchange rate would cause license costs to go up but would also produce exchange gains on payments received (the reverse also holds true).

To monitor the risk level of the EUR/GBP exchange rate, the Group closely monitors exchange rate forecasts from independent analysts and other sources, and requests frequent quotes on derivative instruments that could be used to hedge this risk.

The Group has obtained a credit line of GBP 5 million from UniCredit Banca, for flexible forwards, which at the moment is not being used.

Credit risk

In Italy the Group sells exclusively to known buyers. If necessary information on customers is not available, merchandise is sold cash on delivery to limit credit risk to negligible amounts.

In the highly fragmented Italian distribution market, risks are not concentrated on any individual debtors.

Customer credit facilities are granted by a credit committee which includes the managing directors, the sales department, the finance department and the head of credit management. The credit manager reviews the credit facilities and customer balances on a daily basis, before any shipments are made. Despite these precautions, Digital Bros has insurance covering buyers that the credit committee deems less solvent and/or those with credit facilities of €250 thousand to €1500 thousand. The insurance policy does not eliminate all credit risk on the buyers covered, but considerably limits potential losses.

All foreign subsidiaries have taken out credit insurance with the same global insurance group. The credit policy is never to exceed the limits of coverage for each individual customer, thereby limiting the chance that any difficulties faced by customers will affect the Group's performance.

Derivative contracts

The policy for using derivative contracts is explained in the notes.

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12. CONTINGENT ASSETS AND LIABILITIES

There were no contingent assets or liabilities at 30 September 2011.

13. SUBSEQUENT EVENTS

The following significant events have occurred since 30 September 2011:

- 26 October 2011: the subsidiary 505 Games S.r.l. and Majesco Entertainment Company sign an agreement for the publishing and distribution of ZUMBA® Fitness 2 and another twelve titles. Management estimates that the agreement will bring in about €30 million in revenues in 2011-2012.
- 27 October 2011: the annual general meeting of Digital Bros S.p.A. approves the consolidated and separate financial statements for the year ended 30 June 2011 and elects a new board of directors and board of statutory auditors, whose term of office will expire with approval of the 2013-2014 financial statements.

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14. OUTLOOK

The reversal of trend enjoyed in the final quarter of 2010-2011 is expected to continue in the coming quarters, allowing the year to close with a profit.

In addition to ongoing sales of Zumba® Fitness, the following games are likely to drive revenues in the Publishing segment:

- Zumba® Fitness 2 for English-speaking markets in the second quarter, and for the main European markets (Germany, France and Italy) in the third;
- Sniper Elite, a war simulation game, to be launched worldwide (including the U.S.) in the fourth quarter of the year.

The most significant products scheduled for release in Italy, which will boost revenues in the Italian Distribution segment, are "Mario & Sonic at the London 2012 Olympic Games" (second quarter) and the latest installments of "Silent Hill," "Resident Evil" and "Final Fantasy" (third quarter). Good results are also expected from the distribution of Yu-Gi-Oh! trading cards in Italy.

The upward trend in earnings, and the inventory reduction policy the Group has followed since last year, are likely to allow a significant reduction in debt by year end.

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15. OTHER INFORMATION

EMPLOYEES

Below are the details of the period-end workforce with comparative figures at 30 September 2010:

Category	30 September 2011	30 September 2010	Change
Executives	8	8	0
White collar	131	137	(6)
Blue collar and trainees	10	13	(3)
Total employees	149	158	(9)

The same details for employees at the Group's foreign companies are as follows:

Category	30 September 2011	30 September 2010	Change
Executives	3	3	0
White collar	55	56	(1)
Total employees abroad	58	59	(1)

The average headcount for the period, calculated as the average number of employees in service at the end of every month, is shown below:

Category	Avg. in 1Q11-12	Avg. in 1Q10-11	Change
Executives	8	8	0
White collar	132	136	(4)
Blue collar and trainees	9	12	(3)
Total employees	149	156	(7)

The average headcount at foreign companies in the first three months of the year is as follows:

Category	Avg. in 1Q11-12	Avg. in 1Q10-11	Change
Executives	3	3	0
White collar	55	54	1
Total employees abroad	58	57	1

Digital Bros and its Italian subsidiaries use the Confcommercio national collective employment contract for the commercial, distribution and services sector.

ENVIRONMENT

At 30 September 2011 there were no issues of an environmental nature, and as the Group's environment-related activities consist chiefly of packing and shipping video games and affixing labels to packaging, there is no reason any such problems should arise.

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Financial statements at 30 September 2011

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FINANCIAL STATEMENTS

Digital Bros Group

Consolidated statement of financial position at 30 September 2011

	EUR/000	30 September 2011	30 June 2011	Change	
	Non-current assets				
1	Property, plant and equipment	3,993	4,104	(111)	-2.7%
2	Investment property	455	455	0	0.0%
3	Intangible assets	385	382	3	0.8%
4	Equity investments	0	0	0	0.0%
5	Non-current receivables and other assets	753	751	2	0.3%
6	Deferred tax assets	5,135	5,159	(24)	-0.5%
	Total non-current assets	10,721	10,851	(130)	-1.2%
	Non-current liabilities				
7	Employee benefits	(431)	(460)	29	-6.3%
8	Non-current provisions	(322)	(316)	(6)	2.2%
9	Other non-current payables and liabilities	0	0	0	0.0%
	Total non-current liabilities	(753)	(776)	23	-3.0%
	Net working capital				
10	Inventories	32,577	30,161	2,416	8.0%
11	Trade receivables	58,065	48,624	9,441	19.4%
12	Tax credits	1,233	1,642	(409)	-24.9%
13	Other current assets	3,790	7,326	(3,536)	-48.3%
14	Trade payables	(15,125)	(11,353)	(3,772)	33.2%
15	Taxes payable	(7,112)	(3,478)	(3,634)	n.a.
16	Current provisions	0	0	0	0.0%
17	Other current liabilities	(3,302)	(3,076)	(226)	7.3%
	Total net working capital	70,126	69,846	280	0.4%
	Capital and reserves				
18	Share capital	(5,644)	(5,644)	0	0.0%
19	Reserves	(19,395)	(19,761)	366	-1.9%
20	Treasury shares	1,574	1,574	0	0.0%
21	(Profits) losses carried forward	(3,036)	(327)	(2,709)	n.a.
	Total capital and reserves	(26,501)	(24,158)	(2,343)	9.7%
	Total net assets	53,593	55,763	(2,170)	-3.9%
22	Cash and cash equivalents	6,345	4,750	1,595	33.6%
23	Short-term payables to banks	(47,804)	(50,095)	2,291	-4.6%
24	Other current financial liabilities	(10,530)	(8,761)	(1,769)	20.2%
	Current net debt	(51,989)	(54,106)	2,117	-3.9%
25	Non-current financial assets	0	0	0	0.0%
26	Non-current payables to banks	(45)	(27)	(18)	62.6%
27	Other non-current financial liabilities	(1,559)	(1,630)	71	-4.4%
	Non-current net debt	(1,604)	(1,657)	53	-3.2%
	Total net debt	(53,593)	(55,763)	2,170	-3.9%

Digital Bros Group
Consolidated income statement for the quarter to 30 September 2011

	EUR/000	1Q 2011-2012		1Q 2010-2011		Change	
1	Gross revenues	51,299	112.4%	32,584	116.5%	18,715	57.4%
2	Revenue adjustments	(5,650)	-12.4%	(4,612)	-16.5%	(1,038)	22.5%
3	Net revenues	45,649	100.0%	27,972	100.0%	17,677	63.2%
4	Purchase of goods for resale	(24,586)	-53.9%	(16,138)	-57.7%	(8,448)	52.3%
5	Purchase of services for resale	(2,771)	-6.1%	(265)	-0.9%	(2,506)	n.a.
6	Royalties	(8,280)	-18.1%	(2,277)	-8.1%	(6,003)	n.a.
7	Change in inventories of finished products	2,416	5.3%	(1,806)	-6.5%	4,222	n.a.
8	Total cost of goods sold	(33,221)	-72.8%	(20,486)	-73.2%	(12,735)	62.2%
9	Gross profit (3+8)	12,428	27.2%	7,486	26.8%	4,942	66.0%
10	Other income	32	0.1%	39	0.1%	(7)	-17.0%
11	Cost of services	(4,707)	-10.3%	(3,447)	-12.3%	(1,260)	36.6%
12	Rent and leasing	(274)	-0.6%	(282)	-1.0%	8	-2.9%
13	Payroll costs	(2,679)	-5.9%	(3,086)	-11.0%	407	-13.2%
14	Other operating expenses	(529)	-1.2%	(404)	-1.4%	(125)	30.9%
15	Total operating expenses	(8,189)	-17.9%	(7,219)	-25.8%	(970)	13.4%
16	EBITDA (9+10+15)	4,271	9.4%	306	1.1%	3,965	n.a.
17	Depreciation and amortization	(178)	-0.4%	(195)	-0.7%	17	-9.1%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses	0	0.0%	0	0.0%	0	0.0%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	Total deprec./amort., provisions and impairment	(178)	-0.4%	(195)	-0.7%	17	-9.1%
22	EBIT (16+21)	4,093	9.0%	111	0.4%	3,982	n.a.
23	Interest income	877	1.9%	203	0.7%	674	n.a.
24	Interest expense	(912)	-2.0%	(1,405)	-5.0%	493	-35.1%
25	Net interest income (expense)	(35)	-0.1%	(1,202)	-4.3%	1,167	-97.1%
26	Profit before taxes (22+25)	4,058	8.9%	(1,091)	-3.9%	5,149	n.a.
27	Current taxes	(1,325)	-2.9%	(387)	-1.4%	(938)	n.a.
28	Deferred taxes	(24)	-0.1%	661	2.4%	(685)	n.a.
29	Total taxes	(1,349)	-3.0%	274	1.0%	(1,623)	n.a.
30	Net profit (26+29)	2,709	5.9%	(817)	-2.9%	3,526	n.a.
	Earnings per share:						
33	Basic earnings per share (in EUR)	0.20		(0.06)		0.26	n.a.
34	Diluted earnings per share (in EUR)	0.20		(0.06)		0.26	n.a.

Digital Bros Group**Consolidated statement of comprehensive income for the first quarter of 2011-2012**

EUR/000	1Q11-12	1Q10-11	Change
Net profit (loss) for the period (A)	2,709	(817)	3,526
Net gain (loss) from the translation of foreign currency balances	(366)	294	(660)
Total other gains (losses), net of tax effects (B)	(366)	294	(660)
Total comprehensive income (loss) (A) + (B)	2,343	(523)	2,866

Digital Bros Group

Consolidated statement of cash flows

	EUR/000	1Q 2011-2012	1Q 2010-2011
A. Opening net debt		(55,763)	(55,613)
B. Cash flow from operating activities			
Group's share of net profit (loss) for the year		2,709	(817)
Depreciation, amortization and provisions:			
Amortization		51	65
Depreciation		127	130
Net change in other provisions		(29)	41
Net change in employee benefit provisions		6	5
SUBTOTAL B.		2,864	(576)
C. Change in net working capital			
Inventories		(2,416)	1,806
Trade receivables		(9,441)	6,398
Tax credits		409	663
Other current assets		3,536	(178)
Trade payables		3,772	(5,681)
Taxes payable		3,634	3,039
Current provisions		0	0
Other current liabilities		(140)	(162)
SUBTOTAL C.		(646)	5,885
Cash flow from investing activities			
Net investments in intangible assets		(54)	(5)
Net investments in property, plant and equipment		(16)	(437)
Net investments in financial fixed assets		22	(627)
SUBTOTAL D.		(48)	(1,069)
E. Cash flow from financing activities			
Capital increases		0	0
SUBTOTAL E.		0	0
F. Movements in consolidated capital and reserves			
Dividends paid		0	0
Change in treasury shares held		0	0
Increases (decreases) in other components of capital and reserves		0	0
SUBTOTAL F.		0	294
G. Cash flow for the period (B+C+D+E+F)		2,170	4,240
H. Closing net debt (A+G)		(53,593)	(51,373)

Details of cash flow movements by maturity:

EUR/000	1Q 2011-2012	1Q 2010-2011
Increase (decrease) in securities and cash & cash equivalents	1,595	2,783
Decrease (increase) in short-term payables to banks	2,291	2,175
Decrease (increase) in other current financial liabilities	(1,769)	(646)
Short-term cash flow for the period	2,117	4,312
Medium-term cash flow for the period	53	(72)
Cash flow for the period	2,170	4,240

Additional information on the consolidated statement of cash flows:

	1Q 2011-2012	1Q 2010-2011	Change
Income tax paid	0	0	0
Interest paid	(885)	(710)	(175)
Interest received	0	8	(8)
Dividends paid	0	0	0
Total	(885)	(702)	(183)

Digital Bros Group

Consolidated statement of changes in equity

EUR/000	Share capital (A)	Share premium reserve	Legal reserve	IAS transition reserve	Translation reserve	Total reserves (B)	Treasury shares (C)	Profit (losses) carried forward	Net profit (loss) for the year	Total unallocated income (D)	Consolidated capital and reserves: Group's share (A+B+C+D)
Total at 1 July 2010	5,644	16,954	1,129	1,367	(243)	19,207	(1,574)	3,496	(204)	3,292	26,569
Allocation of net profit						0		(204)	204	0	0
Other changes						0				0	0
Comprehensive income (loss)					294	294			(817)	(817)	(523)
Total at 30 September 2010	5,644	16,954	1,129	1,367	51	19,501	(1,574)	3,292	(817)	2,475	26,046
Purchase of treasury shares						0				0	0
Other changes						0				0	0
Comprehensive income (loss)					260	260			(2,148)	(2,148)	(1,888)
Total at 1 July 2011	5,644	16,954	1,129	1,367	311	19,761	(1,574)	3,292	(2,965)	327	24,158
Allocation of net profit						0		2,965	(2,965)	0	0
Other changes						0				0	0
Comprehensive income (loss)					(366)	(366)			2,709	2,709	2,343
Total at 30 September 2011	5,644	16,954	1,129	1,367	(55)	19,395	(1,574)	6,257	(3,221)	3,036	26,501

Segment reporting

Consolidated income statement for the quarter to 30 September 2011

	EUR/000	Italian Distribution	Newsstands	New Media	International Publishing	Holding	Total
1	Revenues	23,640	0	0	27,659	0	51,299
2	Revenue adjustments	(3,592)	0	0	(2,058)	0	(5,650)
3	Total revenues	20,048	0	0	25,601	0	45,649
4	Purchase of goods for resale	(14,366)	0	0	(10,220)	0	(24,586)
5	Purchase of services for resale	0	0	0	(2,771)	0	(2,771)
6	Royalties	(10)	0	0	(8,270)	0	(8,280)
7	Change in inventories of finished products	1,541	0	0	875	0	2,416
8	Total cost of goods sold	(12,835)	0	0	(20,386)	0	(33,221)
9	Gross profit (3+8)	7,213	0	0	5,215	0	12,428
10	Other income	7	0	0	25	0	32
11	Cost of services	(1,663)	0	0	(3,009)	(35)	(4,707)
12	Rent and leasing	(198)	0	0	(76)	0	(274)
13	Payroll costs	(1,066)	0	0	(1,298)	(315)	(2,679)
14	Other operating expenses	(277)	0	0	(200)	(52)	(529)
15	Total operating expenses	(3,204)	0	0	(4,583)	(402)	(8,189)
16	EBITDA (9+10+15)	4,016	0	0	657	(402)	4,271
17	Depreciation and amortization	(110)	0	0	(47)	(21)	(178)
18	Provisions	0	0	0	0	0	0
19	Impairment losses	0	0	0	0	0	0
20	Impairment reversal	0	0	0	0	0	0
21	Total deprec./amort., provisions and impairment	(110)	0	0	(47)	(21)	(178)
22	EBIT (16+21)	3,906	0	0	610	(423)	4,093

Digital Bros Group
Income statement compliant with Consob Resolution 11519 of 27 July 2006 (related parties)

	EUR/000	1Q 2011-2012			1Q 2010-2011		
			of which: related parties	% of total		of which: related parties	% of total
1	Gross revenues	51,299	0	0.0%	32,584	0	0.0%
2	Revenue adjustments	(5,650)	0	0.0%	(4,612)	0	0.0%
3	Net revenues	45,649	0	0.0%	27,972	0	0.0%
4	Purchase of goods for resale	(24,586)	0	0.0%	(16,138)	0	0.0%
5	Purchase of services for resale	(2,771)	0	0.0%	(265)	0	0.0%
6	Royalties	(8,280)	0	0.0%	(2,277)	0	0.0%
7	Change in inventories of finished products	2,416	0	0.0%	(1,806)	0	0.0%
8	Total cost of goods sold	(33,221)	0	0.0%	(20,486)	0	0.0%
9	Gross profit (3+8)	12,428	0	0.0%	7,486	0	0.0%
10	Other income	32	0	0.0%	39	0	0.0%
11	Cost of services	(4,707)	(63)	1.3%	(3,447)	(46)	1.3%
12	Rent and leasing	(274)	(181)	66.1%	(282)	(181)	64.2%
13	Payroll costs	(2,679)	0	0.0%	(3,086)	0	0.0%
14	Other operating expenses	(529)	0	0.0%	(404)	0	0.0%
15	Total operating expenses	(8,189)	(244)	3.0%	(7,219)	(227)	3.1%
16	EBITDA (9+10+15)	4,271	(244)	-5.7%	306	(227)	-74.2%
17	Depreciation and amortization	(178)	0	0.0%	(195)	0	0.0%
18	Provisions	0	0	0.0%	0	0	0.0%
19	Impairment losses	0	0	0.0%	0	0	0.0%
20	Impairment reversal	0	0	0.0%	0	0	0.0%
21	Total deprec./amort., provisions and impairment	(178)	0	0.0%	(195)	0	0.0%
22	EBIT (16+21)	4,093	(244)	-6.0%	111	(227)	-205.2%
23	Interest income	877	0	0.0%	203	0	0.0%
24	Interest expense	(912)	0	0.0%	(1,405)	0	0.0%
25	Net interest income (expense)	(35)	0	0.0%	(1,202)	0	0.0%
26	Profit before taxes (22+25)	4,058	(244)	-6.0%	(1,091)	(227)	20.8%
27	Current taxes	(1,325)	0	0.0%	(387)	0	0.0%
28	Deferred taxes	(24)	0	0.0%	661	0	0.0%
29	Total taxes	(1,349)	0	0.0%	274	0	0.0%
30	Net profit (26+29)	2,709			(817)		

Digital Bros Group
Statement of financial position compliant with Consob Resolution 15519

EUR/000		30 September 2011			30 June 2011		
			of which: related parties	% of total		of which: related parties	% of total
Non-current assets							
1	Property, plant and equipment	3,993	0	0.0%	4,104	0	0.0%
2	Investment property	455	0	0.0%	455	0	0.0%
3	Intangible assets	385	0	0.0%	382	0	0.0%
4	Equity investments	0	0	0.0%	0	0	0.0%
5	Non-current receivables and other assets	753	635	84.3%	751	635	84.6%
6	Deferred tax assets	5,135	0	0.0%	5,159	0	0.0%
	Total non-current assets	10,721	635	5.9%	10,851	635	
Non-current liabilities							
7	Employee benefits	(431)	0	0.0%	(460)	0	0.0%
8	Non-current provisions	(322)	0	0.0%	(316)	0	0.0%
9	Other non-current payables and liabilities	0	0	0.0%	0		0.0%
	Total non-current liabilities	(753)	0	0.0%	(776)	0	
Net working capital							
10	Inventories	32,577	0	0.0%	30,161	0	0.0%
11	Trade receivables	58,065	0	0.0%	48,624	0	0.0%
12	Tax credits	1,233	0	0.0%	1,642	0	0.0%
13	Other current assets	3,790	0	0.0%	7,326	0	0.0%
14	Trade payables	(15,125)	(35)	0.0%	(11,353)	(258)	2.3%
15	Taxes payable	(7,112)	0	0.0%	(3,478)	0	0.0%
16	Current provisions	0	0	0.0%	0	0	0.0%
17	Other current liabilities	(3,302)	0	0.0%	(3,076)	0	0.0%
	Total net working capital	70,126	(35)	0.0%	69,846	(258)	
Capital and reserves							
18	Share capital	(5,644)	0	0.0%	(5,644)	0	0.0%
19	Reserves	(19,395)	0	0.0%	(19,761)	0	0.0%
20	Treasury shares	1,574	0	0.0%	1,574	0	0.0%
21	(Profits) losses carried forward	(3,036)	0	0.0%	(327)	0	0.0%
	Total capital and reserves	(26,501)	0	0.0%	(24,158)	0	
	Total net assets	53,593	600	1.1%	55,763	377	
22	Cash and cash equivalents	6,345	0	0.0%	4,750	0	0.0%
23	Short-term payables to banks	(47,804)	0	0.0%	(50,095)	0	0.0%
24	Other current financial liabilities	(10,530)	0	0.0%	(8,761)	0	0.0%
	Current net debt	(51,989)	0	0.0%	(54,106)	0	
25	Non-current financial assets	0	0	0.0%	0	0	0.0%
26	Non-current payables to banks	(45)	0	0.0%	(27)	0	0.0%
27	Other non-current financial liabilities	(1,559)	0	0.0%	(1,630)	0	0.0%
	Non-current net debt	(1,604)	0	0.0%	(1,657)	0	
	Total net debt	(53,593)	0	0.0%	(55,763)	0	

Digital Bros Group

Income statement compliant with Consob Resolution 11519 of 27 July 2006 (non-recurring)

	EUR/000	1Q 2011-2012			1Q 2010-2011		
			of which: non-recurring	% of total		of which: non-recurring	% of total
1	Gross revenues	51,299	0	0.0%	32,584	0	0.0%
2	Revenue adjustments	(5,650)	0	0.0%	(4,612)	0	0.0%
3	Net revenues	45,649	0	0.0%	27,972	0	0.0%
4	Purchase of goods for resale	(24,586)	0	0.0%	(16,138)	0	0.0%
5	Purchase of services for resale	(2,771)	0	0.0%	(265)	0	0.0%
6	Royalties	(8,280)	0	0.0%	(2,277)	0	0.0%
7	Change in inventories of finished products	2,416	0	0.0%	(1,806)	0	0.0%
8	Total cost of goods sold	(33,221)	0	0.0%	(20,486)	0	0.0%
9	Gross profit (3+8)	12,428	0	0.0%	7,486	0	0.0%
10	Other income	32	0	0.0%	39	0	0.0%
11	Cost of services	(4,707)	0	0.0%	(3,447)	0	0.0%
12	Rent and leasing	(274)	0	0.0%	(282)	0	0.0%
13	Payroll costs	(2,679)	0	0.0%	(3,086)	0	0.0%
14	Other operating expenses	(529)	0	0.0%	(404)	0	0.0%
15	Total operating expenses	(8,189)	0	0.0%	(7,219)	0	0.0%
16	EBITDA (9+10+15)	4,271	0	0.0%	306	0	0.0%
17	Depreciation and amortization	(178)	0	0.0%	(195)	0	0.0%
18	Provisions	0	0	0.0%	0	0	0.0%
19	Impairment losses	0	0	0.0%	0	0	0.0%
20	Impairment reversal	0	0	0.0%	0	0	0.0%
21	Total deprec./amort., provisions and impairment	(178)	0	0.0%	(195)	0	0.0%
22	EBIT (16+21)	4,093	0	0.0%	111	0	0.0%
23	Interest income	877	0	0.0%	203	0	0.0%
24	Interest expense	(912)	0	0.0%	(1,405)	0	0.0%
25	Net interest income (expense)	(35)	0	0.0%	(1,202)	0	0.0%
26	Profit before taxes (22+25)	4,058	0	0.0%	(1,091)	0	0.0%
27	Current taxes	(1,325)	0	0.0%	(387)	0	0.0%
28	Deferred taxes	(24)	0	0.0%	661	0	0.0%
29	Total taxes	(1,349)	0	0.0%	274	0	0.0%
30	Net profit (26+29)	2,709			(817)		



Notes to the financial statements

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1. FORM, CONTENT, AND OTHER GENERAL INFORMATION

Publication of the interim management statement of the Digital Bros Group for the first three months of fiscal year 2011-2012 was approved by resolution of the board of directors on 4 November 2011. Digital Bros S.p.A. is a joint-stock company incorporated and domiciled in Italy. It is listed in the STAR segment of the MTAX market operated by Borsa Italiana S.p.A.

Its main operations and those of its subsidiaries are described in the directors' report.

The interim management statement at 30 September 2011 has been prepared on a going concern basis. The Group has determined that the uncertainties and risks to which it is exposed, as described in the directors' report, do not cast doubt on its ability to operate as a going concern.

Accounting standards and compliance with IFRS

This interim management statement at 30 September 2011, in consolidated form pursuant to Art. 154-ter of Legislative Decree 58 of 24 February 1998 (the Consolidated Finance Act), as amended, was prepared in accordance with the IFRS published by the International Accounting Standards Board (IASB) and endorsed by the European Union. The term "IFRS" encompasses the International Accounting Standards (IAS) still in effect, as well as all interpretations published by the International Financial Reporting Interpretations Committee (IFRIC). All amounts are expressed in thousands of euros (EUR/000), unless otherwise specified.

Reporting formats

The interim management statement at 30 September 2011 has been prepared in accordance with Arts. 11971 *et seq.* of CONSOB Regulation 11971/99 for issuers (as amended), with CONSOB Resolution 15519 of 27 July 2006 and with CONSOB announcement DEM/6064293 of 28 July 2006.

No changes have been made to the reporting format with respect to previous years, and all schedules are consistent with those used for the consolidated financial statements at 30 June 2011.

The financial statements are comprised of:

- consolidated statement of financial position at 30 September 2011 with comparative figures at 30 June 2011 (the previous year-end reporting date);
- consolidated income statement for the period from 1 July 2011 to 30 September 2011, in comparison with the consolidated income statement from 1 July 2010 to 30 September 2010;
- consolidated statement of cash flows for the period under review, in comparison with the cash flow statement for the corresponding period last year;

- details of cash flows by maturity, compared with movements taking place in 2010-2011;
- additional information on the consolidated statement of cash flows, with prior-year comparison;
- consolidated statement of changes in equity from 1 July 2010 to 30 September 2011;
- segment reporting: income statement;
- consolidated income statement and statement of financial position compliant with Consob Resolution 15519 of 27 July 2006.

The first column of the statement of financial position indicates the number of the relevant note.

Items in the statement of financial position are divided into five categories:

- non-current assets
- non-current liabilities
- net working capital
- capital and reserves
- net financial position

Non-current assets are those whose duration is long-term by nature, such as fixed assets to be used over several years, equity investments, and receivables due in subsequent periods. They also include investment property, and deferred tax assets regardless of when they might be realized.

Non-current liabilities cover provisions not expected to be used during the next 12 months and for post-employment benefits, in particular the provision for employee termination indemnities at the parent company and its Italian subsidiaries.

Net working capital encompasses current assets and liabilities. Because of the commercial nature of the Group's operations, net working capital is especially significant, as it represents the amount the Group invests in operating activities to help increase its turnover. Its trend in relation to business volumes, and as a function of seasonal patterns in the market, is extremely important.

Capital and reserves consist of share capital, reserves, unallocated earnings (the profit for the year plus the portion of previous years' profits not allocated to specific types of reserve by the shareholders), as adjusted by treasury shares.

Total net assets are the sum of non-current assets plus net working capital, less non-current liabilities and capital and reserves.

The net financial position is divided into current and non-current debt and balances total net assets.

The first column of the official income statement and of the income statement provided for segment reporting purposes indicates the number of the relevant note.

The income statement has been prepared in vertical format, with individual entries grouped by type, and shows four intermediate levels of profit:

- gross profit, the difference between net revenues and the total cost of goods sold;
- EBITDA, the difference between the gross profit and total operating expenses;
- EBIT, the difference between EBITDA and total depreciation, amortization and impairment;
- pre-tax profit, the difference between EBIT and net interest income or expense.

The net profit, the difference between the pre-tax profit and total tax, is followed by earnings per share.

The cash flow statement has been prepared using the indirect method, whereby profit is adjusted for the effects of transactions of a non-cash nature, changes in net working capital, and cash flows from financing or investing activities.

The overall change for the period is given by the sum of the following items:

- cash flow from operating activities
- changes in net working capital
- cash flow from investing activities
- cash flow from financing activities
- movements in capital and reserves

The statement of changes in equity has been drawn up in accordance with IFRS, and shows movements since 1 July 2009.

There are no minority interests, which are therefore not reported.

2. ACCOUNTING STANDARDS

Figures in the interim management statement were determined according to the interpretations of the International Accounting Standards in force as of 30 September 2011.

The consolidated financial statements were prepared on the basis of the accounts at 30 September 2011 submitted by the companies in the consolidation, which have been adjusted, where necessary, to bring them into line with Group accounting policies and IAS/ IFRS. All comparative figures from prior periods have been restated as necessary in order to render them IFRS-compliant.

The accounting policies used for the interim management statement at 30 September 2011 are consistent with those used to prepare the corresponding statement at 30 September 2010. Changes in the standards and interpretations adopted by the European Union have had no significant effect on the preparation of the interim management statement.

Please see the Annual Report and financial statements at 30 June 2011 for a complete description of the accounting standards followed.

New accounting standards

Below is a description of the new standards and interpretations approved by the EU and applied by the Group since 1 July 2011.

IFRIC 14 - Prepayments of a minimum funding requirement

On 15 November 2009 the International Financial Reporting Interpretations Committee (IFRIC) published an amendment to IFRIC 14 - Prepayments of a minimum funding requirement. The amendment is aimed at correcting an unintended consequence of IFRIC 14, by which under given circumstances, an entity subject to minimum funding requirements that makes an early payment of contributions is required to recognize a cost. In cases in which a defined benefit plan is subject to minimum funding requirements, the revised version of IFRIC 14 requires that early payments be treated as assets, just like any other prepayment. These changes have had no impact on the interim management statement at 30 September 2011.

IFRIC 19: Extinguishing financial liabilities with equity instruments

On 26 November 2009 the International Financial Reporting Interpretations Committee (IFRIC) published IFRIC 19 - Extinguishing financial liabilities with equity instruments, which provides guidance as to how the debtor should account for equity instruments issued to extinguish all or part of a financial liability as a result of the renegotiation of terms. This interpretation has had no impact on the interim management statement at 30 September 2011.

IAS 24: Related party disclosures

On 4 November 2009 the International Accounting Standards Board (IASB) published a revised version of IAS 24 - Related party disclosures. The new version simplifies the definition of "related party," removes some inconsistencies, and eliminates some related party disclosures for public entities. The revision has had no impact on the interim management statement at 30 September 2011.

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3. USE OF ESTIMATES

The preparation of the interim management statement and notes at 30 September 2011 required Group companies to make certain discretionary valuations. These were used to prepare estimates and assumptions that affect the value of recognized assets and liabilities and the information on contingent assets and liabilities as of the reporting date. Actual future results may differ.

In particular, estimates are used to report provisions for doubtful accounts, the measurement of inventories at market value, depreciation and amortization, asset impairment, employee benefits, deferred taxes, and other provisions and reserves. Estimates and assumptions are reviewed at least quarterly, and any changes are reflected immediately in profit or loss.

Sources of uncertainty in making estimates

The main sources of uncertainty in making estimates concerned doubtful accounts, inventory impairment, employee benefits, revenue adjustments, royalties, and deferred taxes.

Doubtful accounts

The risk of credit default from Italian customers is assessed periodically, on the basis of opinions provided by the external legal advisor in charge of customer disputes. According to the Group's credit collection procedure, receivables not paid within 45 days of falling due are passed on to the legal advisor for collection. Frequent meetings between the legal advisor and the credit manager, and frequent updates of the legal advisor's collectibility forecasts, make the estimate of doubtful accounts reliable over time.

As for trade receivables outside Italy, the policy is never to exceed the insurance limit for individual customers, so there are no particular issues of risk assessment.

Valuation of inventories

The Group values inventories on a quarterly basis, in consideration of the rapid obsolescence of its products. Impairment losses may be charged to reflect individual products' lower market value with respect to their historical cost. To arrive at these estimates, the Group uses revenue forecasts for the six following quarters, produced by the sales department. Any differences found between the market valuation of a product held in inventory, taking account of its platform/price category, and its historical cost are recognized to profit or loss in the period they are discovered. The sales forecast is the foundation for drawing up the short- and medium/long-term budgets.

Inventories in the International Publishing segment are easier to value considering the smaller number of products distributed, and the fact that historical cost consists solely of the cost of physically producing the games.

Employee benefits

The Group offers no pension plans and/or other employee benefits, with the exception of the employee termination indemnities (*trattamento di fine rapporto*, or TFR) required by Italian law. Estimating those benefits requires an assessment of the future financial outlays that may arise as a result of employees' voluntary and involuntary departure from the Company, in relation to their seniority and the revaluation rates these benefits enjoy by law.

The TFR system underwent significant changes during the year ended 30 June 2006. Estimating the liability is still complex, due to a small portion of benefits that have remained with Group companies. To arrive at this estimate, the Group has engaged a registered actuary to define the necessary parameters.

Revenue adjustments

A significant cost element defined as "revenue adjustments" involves analytical computations for which the Group has adopted suitable procedures.

Revenue adjustments are made up of two kinds of cost. The first, discounts granted to customers at the end of the contractual period (known as year-end credits), are easier to determine. The second are difficult to estimate and consist of potential credit notes that the Group will have to issue for returns of unsold products and/or price reductions to be granted even if not necessarily agreed in the contract. To estimate this amount, management uses calculations based on an analysis by individual customer as well as an analysis by individual product, in which the risk is shown separately for price cuts and potential returns. The forecast is made quarterly, on a product-by-product basis, comparing volumes sold to the Group's customers with the volumes they have sold to end consumers. The availability of these sales figures makes the estimate reliable over time.

Royalties and advances to developers for licenses

The method of calculating royalties varies according to the type of contract the Group has with developers. Over time, the number of contracts that involve fluctuating royalties with a guaranteed minimum and/or a fixed development portion has increased. Management has to estimate the future benefit these types of contract will produce in the following quarters in order to respect the principle of matching costs and income, as described in the accounting standards section, which is based on sales forecasts for the subsequent periods. The sales forecasts are based on medium term (three-year) planning, which is revised twice a year and affects the estimated recoverability of advances already paid.

Deferred taxes

There are two areas of uncertainty in the calculation of deferred taxes. The first is their recoverability, an uncertainty the Group mitigates by comparing the deferred tax assets recognized by individual companies with their budgets. The second is the tax rate, which is assumed to be constant over time, and to equal the rates currently applicable in the various countries where the Group is active.

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4. CONSOLIDATION METHODS

Subsidiaries

Subsidiaries are companies the Group controls. Control exists when the Group has the power, directly or indirectly, to influence their financial and managerial policies in such a way as to obtain benefits from their operations. The accounts of subsidiaries are included in the interim management statement as from the date control is assumed until the date control ceases to exist.

The accounts used for the consolidation are prepared as of the same reporting date, and are converted from local accounting standards to those employed by the Group.

Joint ventures are equity accounted.

Translation of foreign currency accounts

The Group's presentation currency is the euro, which is also the functional currency of Digital Bros S.p.A. At the close of the period, the financial statements of foreign companies with a functional currency other than the euro were translated into the presentation currency as follows:

- assets and liabilities were translated using the exchange rate in force at the close of the financial period (30 September 2011);
- income statement items were translated using the average exchange rate for the period;
- capital and reserves were translated at historical exchange rates.

The exchange differences arising from this process are recognized directly to capital and reserves, in a separate translation reserve under the heading "other reserves."

Transactions eliminated in the consolidation process

In preparing the interim management statement at 30 September 2011, all assets, liabilities, and economic and financial transactions existing between Group companies were eliminated, along with unrealized profits and losses on intercompany transactions.

Scope of consolidation

The tables below show the details of companies consolidated on a line-by-line basis and according to the equity method.

Companies consolidated on a line-by-line basis:

Name	Head office	Country	Share capital	% held directly or indirectly
Digital Bros S.p.A.	Milan	Italy	€5,644,334.80	Parent company
Game Entertainment S.r.l.	Milan	Italy	€100,000	100%
Game Media Networks S.r.l.	Milan	Italy	€100,000	100%
Game Service S.r.l.	Milan	Italy	€50,000	100%
505 Games S.r.l.	Milan	Italy	€100,000	100%
505 Games France S.a.s.	Francheville	France	€100,000	100%
505 Games Ltd. (1)	Milton Keynes	United Kingdom	£100,000	100%
Digital Bros Iberia S.l.	Las Rozas de Madrid	Spain	€100,000	100%
505 Games US Inc. (1)	Agoura Hills, CA	USA	\$100,000	100%
505 Games GmbH (1)	Burglengenfeld	Germany	€50,000	100%
505 Games Nordic AB (1)	Uppsala	Sweden	Kr 500,000	100%

There have been no changes in the scope of consolidation since 30 June 2011.

Companies carried at equity:

No companies have been consolidated using the equity method since the liquidation of D3DB S.r.l. during the year ended 30 June 2011.

5. JOINT VENTURES

At 30 June 2011 the Group was not involved in any joint ventures.

6. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The main financial instruments used by the Group are as follows:

- Bank account overdrafts
- Sight- and short-term bank deposits
- Import financing
- Export financing
- Commercial credit lines (factoring)
- Long-term mortgage loans
- Finance leases
- Derivative contracts

The purpose of these instruments is to finance the Group's operating activities.

The parent company Digital Bros S.p.A. manages all financial risks on behalf of itself and its subsidiaries, with the exception of other financial instruments not listed above, namely trade payables and receivables arising from operating activities for which the financial risk is the responsibility of the individual company.

Since 2007-2008 the subsidiary 505 Games S.r.l. has enjoyed its own independent credit facilities to finance its international growth, and since April 2011 the subsidiary 505 Games Ltd. has had access to two international factoring lines, granted by Unicredit Factoring (5 million British pounds) and by the Intesa San Paolo company Mediofactoring (€4 million).

The Group tries to maintain a balance between short-term and medium/long-term financial instruments. The Group's core business, the marketing of video games, entails investments primarily in net working capital which are funded through short-term credit lines. Long-term investments are normally financed through medium/long-term lines, often dedicated to the individual investment, in the form of finance leases.

Given the above, medium- and long-term financial payables have a well-distributed range of maturities.

The main risks generated by the Group's financial instruments are:

- interest rate risk
- liquidity risk
- exchange rate risk
- credit risk

Interest rate risk

The Group's exposure to interest rate fluctuations is marginal with respect to its medium- and long-term financial instruments, which were originally designated as fixed-rate instruments or have been converted into fixed rates using appropriate derivative agreements.

For short-term financial instruments, the possibility of rising interest rates is an effective risk, because the Group cannot immediately transfer the higher rates to its prices. These risks are reduced by:

- the availability of an interconnected series of short-term credit lines, allowing it to borrow under the most favorable conditions. Specifically, the company has access to fiduciary credit whose conditions are less volatile than interest rates;
- the degree of short-term borrowings, which varies substantially on the basis of seasonal trends in the video games market;
- the implementation of short-term cash flow procedure that constantly monitors the trend in short-term debt and allows preventive action to be taken when interest rates are expected to rise.

Liquidity risk

Liquidity risk arises if it becomes difficult or impossible to obtain, under sustainable conditions, the financial resources needed to operate the business.

The factors that influence the Group's financial needs are the resources generated or absorbed by operating and investing activities; the maturity and renewal terms of debt and the liquidity of investments; and current conditions and available funds in the credit market.

The Group has reduced this risk by:

- setting up the centralized management of treasury procedures and therefore of credit lines;
- obtaining credit that allows the creation of a sustainable liability structure, through the use of irrevocable credit lines and medium- or long-term loans;
- monitoring prospective liquidity conditions.

Given the results of short- and medium/long-term planning, currently available funds, along with those to be generated by operating activities, should allow the Group to satisfy its requirements as far as investment, working capital management, and debt repayment at natural maturity are concerned and in any case to determine financial requirements well ahead of time.

Exchange rate risk

The Group is not heavily influenced by exchange rate fluctuations, with the exception of the British pound. Purchases in currencies other than the euro are marginal, and are almost entirely in British pounds and U.S. dollars due to the manufacturing and structural costs of the subsidiaries 505 Games Ltd. and 505 Games US Inc.

Royalties on international video game exploitation rights are paid partly in Japanese yen. Payments are made in advance, so the Group knows the actual cost of royalties ahead of time and is able to transfer any higher charges due to exchange rates onto its prices.

The Group's exposure in USD due to the opening of the United States subsidiary is mitigated by the fact that it has many game development contracts in that currency, so any negative changes in the EUR/USD exchange rate would cause license costs to go up but would also produce exchange gains on payments received (the reverse also holds true).

To monitor the risk level of the EUR/GBP exchange rate, the Group closely monitors exchange rate forecasts from independent analysts and other sources, and requests frequent quotes on derivative instruments that could be used to hedge this risk.

The Group has obtained a credit line of GBP 5 million from UniCredit Banca, for flexible forwards, which at the moment is not being used.

Credit risk

In Italy the Group sells exclusively to known buyers. If necessary information on customers is not available, merchandise is sold cash on delivery to limit credit risk to negligible amounts.

In the highly fragmented Italian distribution market, risks are not concentrated on any individual debtors.

Customer credit facilities are granted by a credit committee which includes the managing directors, the sales department, the finance department and the head of credit management. The credit manager reviews the credit facilities and customer balances on a daily basis, before any shipments are made. Despite these precautions, Digital Bros has insurance covering buyers that the credit committee deems less solvent and/or those with credit facilities of €250 thousand to €1500 thousand. The insurance policy does not eliminate all credit risk on the buyers covered, but considerably limits potential losses.

All foreign subsidiaries have taken out credit insurance with the same global insurance group. The credit policy is never to exceed the limits of coverage for each individual customer, thereby limiting the chance that any difficulties faced by customers will affect the Group's performance.

Derivative contracts

The policy for using derivative contracts is explained in the notes.

7. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

NON-CURRENT ASSETS

Total investments in the first three months of the year came to €70 thousand: €11 thousand for the purchase of industrial and office automation equipment, €5 thousand for leasehold improvements on the warehouse in Trezzano sul Naviglio, €24 thousand for the development of management systems, and €30 thousand for the development of the 505 Games website.

Investment property consists of one building owned in Milan for office and manufacturing use, which at the moment the Group is not using. It is held with a view to appreciation of the invested capital. The Group has opted to carry this building at historical cost.

Non-current receivables and other assets, which include security deposits against contractual obligations, include a €635 thousand deposit with Matov Imm. S.r.l. to secure rent on the premises at Via Tortona 37.

Deferred tax assets are calculated on prior fiscal losses and other temporary differences between values applicable for tax purposes and those recognized in the financial statements. They are estimated assuming stable tax rates between now and the time of use.

NON-CURRENT LIABILITIES

The item "Employee benefits" represents the actuarial value of the Group's effective liability to employees, calculated by an independent actuary in accordance with IAS 19. "Non-current provisions" consist wholly of the provision for agents' indemnities.

NET WORKING CAPITAL

An analysis of net working capital in comparison with figures at 30 June 2011 is provided below:

EUR/000	30 September 2011	30 June 2011	Change
Inventories	32,577	30,161	2,416
Trade receivables	58,065	48,624	9,441
Tax credits	1,233	1,642	(409)
Other current assets	3,790	7,326	(3,536)
Trade payables	(15,125)	(11,353)	(3,772)
Taxes payable	(7,112)	(3,478)	(3,634)
Current provisions	0	0	0
Other current liabilities	(3,302)	(3,076)	(226)
Total net working capital	70,126	69,846	280

Net working capital was stable with respect to 30 June 2011, rising by just €280 thousand due mainly to an increase of €2,416 thousand in inventories and of €9,441 thousand in trade receivables, which were partially offset by a reduction of €3,536 thousand in other current assets, an increase of €3,772 thousand in trade payables and a rise of €3,634 thousand in taxes payable.

The growth of inventories is temporary, referring primarily to goods in transit at 30 September 2011 awaiting sale in early October.

Most of the increase in taxes payable reflects the higher VAT liability of the parent company and the U.K. subsidiary.

CAPITAL AND RESERVES

Detailed movements in capital and reserves are reported in the consolidated statement of changes in equity (attached to this report). They can be summarized as follows:

EUR/000	Share capital (A)	Share premium reserve	Legal reserve	IAS transition reserve	Translation reserve	Total reserves (B)	Treasury shares (C)	Profit (losses) carried forward	Net profit (loss) for the year	Total unallocated income (D)	Consolidated capital and reserves: Group's share (A+B+C+D)
Total at 1 July 2011	5,644	16,954	1,129	1,367	311	19,761	(1,574)	3,292	(2,965)	327	24,158
Allocation of net profit						0		(2,965)	2,965	0	0
Dividend payments						0				0	0
Purchase of treasury shares						0				0	0
Other changes						0				0	0
Comprehensive income (loss)					(366)	(366)			2,709	2,709	2,343
Total at 30 September 2011	5,644	16,954	1,129	1,367	(55)	19,395	(1,574)	327	2,709	3,036	26,501

The share capital (unchanged since 30 June 2011) is divided into 14,110,837 ordinary shares of par value €0.40 each, for a total of €5,644,334.80. There are no other types of shares outstanding. There are no rights, preferences or restrictions on ordinary shares.

No specific uses or objectives have been designated for the individual equity reserves, other than those defined by law.

During the period the Company did not buy treasury shares. At the close of the quarter it held 525,247 treasury shares valued at €1,574 thousand.

The other movements during the period consist of the allocation of €2,965 thousand in losses for the year ended 30 June 2011 to profits (losses) carried forward, as reported to the shareholders during the general meeting of 27 October 2011, and a negative €366 thousand for the change in the translation reserve with respect to 505 Games Ltd., 505 Games US Inc. and 505 Nordic AB.

NET DEBT

The breakdown of consolidated net debt with comparative figures at 30 June 2011 is as follows:

	EUR/000	30 September 2011	30 June 2011	Change	
22	Cash and cash equivalents	6,345	4,750	1,595	33.6%
23	Short-term payables to banks	(47,804)	(50,095)	2,291	-4.6%
24	Other current financial liabilities	(10,530)	(8,761)	(1,769)	20.2%
	Current net debt	(51,989)	(54,106)	2,117	-3.9%
25	Non-current financial assets	0	0	0	0.0%
26	Non-current payables to banks	(45)	(27)	(18)	62.6%
27	Other non-current financial liabilities	(1,559)	(1,630)	71	-4.4%
	Non-current net debt	(1,604)	(1,657)	53	-3.2%
	Total net debt	(53,593)	(55,763)	2,170	-3.9%

Net debt decreased by €2,170 thousand with respect to 30 June 2011.

At the close of the year, the carrying values of the financial instruments held by the Group were equal to their fair values. For cash and cash equivalents, carrying amount is a reasonable approximation of fair value since these are highly liquid forms of investment, while for finance lease liabilities (included with other financial liabilities), carrying amount is a reasonable approximation of fair value as the lease contract is backed by an interest rate swap.

The following table shows the Group's financial liabilities at 30 September 2011, grouped by maturity:

EUR/000	Within 1 year	1 - 5 years	beyond 5 years	Total
Bank overdrafts	(3,596)	0	0	(3,596)
Import-export financing	(29,739)	0	0	(29,739)
Advances on invoices and subject to collection	(13,529)	0	0	(13,529)
Bank loans	(920)	0	0	(920)
Bank borrowings for fair value recognition of derivatives	(20)	(45)	0	(65)
Total due to banks (A)	(47,804)	(45)	0	(47,849)
Other financial liabilities (B)	(10,530)	(1,559)	0	(12,089)
Total (A+B)	(58,334)	(1,604)	0	(59,938)

Current net debt

Current net debt is made up as follows:

	EUR/000	30 September 2011	30 June 2011	Change
22	Cash and cash equivalents	6,345	4,750	1,595
23	Short-term payables to banks	(47,804)	(50,095)	2,291
24	Other current financial liabilities	(10,530)	(8,761)	(1,769)
	Total current net debt	(51,989)	(54,106)	2,117

22. Cash and cash equivalents

Cash and cash equivalents at 30 September 2011 are comprised of sight deposits at banks, units of money market funds used as short-term investments of cash, and a Quadrante policy taken out by Digital Bros S.p.A. on 21 October 2002 in connection with the Montepaschivita insurance scheme.

EUR/000	30 September 2011	30 June 2011	Change
Cash on hand and bank deposits	3,728	2,133	1,595
Mutual fund units	2,325	2,325	0
Quadrante policy (Banca Toscana)	292	292	0
Total cash and cash equivalents	6,345	4,750	1,595

Cash and cash equivalents at 30 September 2011 amount to €6,345 thousand, an increase of €1,595 thousand with respect to 30 June 2011 due to a rise in cash on hand and bank deposits.

23. Short-term payables to banks

Short-term payables to banks are comprised of account overdrafts, import-export financing, advances on invoices, advances subject to collection, and the portion of derivative payables and bank loans due within 12 months. The decrease in short-term payables to banks with respect to 30 June 2011 is due primarily to the reduction in account overdrafts and import-export financing, which was only partially offset by a rise in advances on invoices and subject to collection.

Details are as follows:

EUR/000	30 September 2011	30 June 2011	Change
Account overdrafts	(3,596)	(5,949)	2,353
Import-export financing	(29,739)	(33,193)	3,454
Advances on invoices and subject to collection	(13,529)	(9,567)	(3,962)
Loan installments due within 12 months	(920)	(1,373)	453
Fair value recognition of derivatives - due within 12 months	(20)	(13)	(7)
Total short-term payables to banks	(47,804)	(50,095)	2,291

As they did at 30 June 2011, installments due within 12 months consist solely of the remaining balance on two loans granted by Banca Intesa San Paolo to the subsidiary 505 Games S.r.l.:

- €221 thousand for the remainder of a loan taken out on 2 February 2007, due in February 2012. The €2 million originally borrowed is being used to finance the purchase of new video game exploitation licenses. The loan charges floating annual interest at the three-month Euribor plus 2%. Interest and principal is being paid in 20 installments, at the end of every quarter, on a constant amortization basis;
- €699 thousand for the remainder of a €4 million loan taken out on 10 February 2009, due in February 2012. This loan, on which interest and principal are being repaid in 12 quarterly

installments beginning three months after disbursement, charges variable interest amounting to the three-month Euribor plus an annual nominal spread of 275 basis points. It has three covenants:

1. consolidated net debt cannot be more than four times consolidated EBITDA;
2. consolidated net debt cannot be more than twice the Group's tangible equity;
3. consolidated capital and reserves cannot be less than €30 million.

Failure to respect these conditions would entitle the bank to demand reimbursement of the remaining principal; although the covenants cannot be respected, the bank is unlikely to call in the loan. This loan charges adjustable interest at the three-month Euribor plus 275 basis points. Interest is paid and the principal reimbursed in 12 quarterly installments.

24. Other current financial liabilities

Other current financial liabilities are comprised mainly of advances on the non-recourse factoring of trade receivables, in the amount of €10,246 thousand (+€1,769 thousand compared with 30 June 2011).

This item also includes finance leases held with Intesa Leasing and SanPaolo Leasing that are payable within 12 months of the close of the period, for a total of €284 thousand. The leases currently in force concern the warehouse in Trezzano sul Naviglio as well as office automation equipment, cars, and the furnishings of the new premises at Via Tortona 37.

Non-current net debt

Non-current net debt is made up as follows:

	EUR/000	30 September 2011	30 June 2011	Change
25	Non-current financial assets	0	0	0
26	Non-current payables to banks	(45)	(27)	(18)
27	Other non-current financial liabilities	(1,559)	(1,630)	71
	Total non-current net debt	(1,604)	(1,657)	53

25. Non-current financial assets

No non-current financial assets were recognized at 30 September 2011 or at the end of the previous year.

26. Non-current payables to banks

Non-current payables to banks consist solely of €45 thousand in liabilities for derivative instruments due beyond 12 months, as a result of their measurement at fair value.

Non-hedge derivatives are recognized at fair value. The Group uses derivatives to minimize interest rate risk. In keeping with IAS 39, financial liabilities hedged by derivatives are recognized at fair value according to the rules for hedge accounting. Derivatives for which gains and losses are recognized to profit or loss refer to various interest rate hedges.

The only derivative contract outstanding is an interest rate swap with Banca Intesa San Paolo that matures on the same date as the finance lease described below; it hedges interest rate risk over the life of the lease. Under the terms of the IRS, simultaneously with the payment of leasing installments the Group will pay interest of 3.35% annually and receive the three-month Euribor. The notional amount of the IRS varies according to the residual principal of the lease.

The following table presents the value of the interest rate swap at the close of the period and at 30 June 2011:

Bank	Inception date	Expiry date	Nominal value at 30 September 2011	Fair value at 30 September 2011	Fair value at 30 June 2011
Intesa San Paolo	7 October 2005	28 November 2014	1,240	(65)	(40)
Total			n.a.	(65)	(40)

27. Other non-current financial liabilities

Other non-current financial liabilities refer to the non-current portion of finance leases.

EUR/000	30 September 2011	30 June 2011	Change
Lease payments due beyond 12 months	(1,559)	(1,630)	71
Total non-current financial liabilities	(1,559)	(1,663)	71

Finance lease payments falling due beyond 12 months pertain mostly to the lease for the purchase of the Trezzano sul Naviglio warehouse taken out on 25 November 2004.

The contract calls for 120 monthly payments of €16 thousand each, plus a payment upon delivery of €528 thousand and an end of lease purchase option of €792 thousand.

Payments falling due after the building is delivered are indexed to the monthly average of the three-month Euribor plus 1.75%. For each installment, the average rate is calculated for the period between the day prior to the due date of the payment to be indexed and the due date of the previous payment. The final installment will be calculated using the same average as for the second-to-last payment. The lease will mature on 30 November 2014. Payments falling due within 12 months total €145 thousand, and those with a maturity of one to five years amount to €1,112 thousand.

In 2009-2010 the Group signed an extension on the Trezzano sul Naviglio lease with Banca Intesa San Paolo. The extension calls for 58 monthly payments of €4 thousand each, plus an advance payment of

€116 thousand and an end of lease purchase option of €119 thousand. The extension will mature on 30 November 2014. Payments falling due within 12 months total €41 thousand, and those with a maturity of one to five years amount to €208 thousand. Payments are indexed to the monthly average of the three-month Euribor plus 1.75 points.

In 2010-2011 the Group began to lease €424 thousand worth of furnishings for the Italian companies' new premises under an agreement with Leasint S.p.A. The contract calls for 58 monthly payments of €6 thousand each, plus an advance payment of €108 thousand and an end of lease purchase option of €4 thousand. The lease will mature on 1 June 2015. Payments falling due within 12 months total €62 thousand, and those with a maturity of one to five years amount to €174 thousand. Payments are indexed to the monthly average of the three-month Euribor plus 2 points.

The Group has three other finance leases, for the purchase of a labeling machine, a shipping and packaging line for the Trezzano sul Naviglio warehouse and a vehicle, with a total of €36 thousand due within 12 months and €65 thousand due beyond one year.

The following table shows finance lease payments by maturity:

EUR/000	Nominal value of payments
Within 1 year	284
1 - 5 years	1,559
Beyond 5 years	0
Total	1,843

The nominal value of lease payments is a good approximation of their fair value, since the leases are backed by an interest rate swap measured at fair value.

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8. ANALYSIS OF THE INCOME STATEMENT

3. Net revenues

Total net revenues went from €27,972 thousand to €45,649 thousand, an increase of about 63%.

The total is broken down below by segment. The Holding and Newsstands segments are not included, because the former does not generate revenues and because no new products were distributed through newsstands during the quarter.

	EUR/000	Italian Distribution	International Publishing	Total
1	Gross revenues	23,640	27,659	51,299
2	Revenue adjustments	(3,592)	(2,058)	(5,650)
3	Net revenues	20,048	25,601	45,649

25. Net interest income (expense)

As follows:

EUR/000	1Q11-12	1Q10-11	Change	%
Interest income	877	203	674	n.a.
Interest expense	(912)	(1,405)	493	-35.1%
Net interest income (expense)	(35)	(1,202)	1,167	-97.1%

Interest income came to €877 thousand, an increase of €674 thousand with respect to the previous year. Most of the upturn is due to the positive impact of the appreciation of the GBP/EUR and USD/EUR exchange rates on the parent company's financial receivables.

Below are the details of interest expense:

EUR/000	1Q11-12	1Q10-11	Change	%
Interest on account overdrafts and commercial transactions	710	603	107	17.8%
Other interest expense	13	0	13	n.a.
Interest on derivatives	46	10	36	n.a.
Interest on loans and leases	31	87	(56)	-64.5%
Factoring interest	85	10	75	n.a.
Total interest expense to banks	885	710	175	-6.9%
Foreign exchange losses	27	695	(668)	-96.1%
Total interest expense	912	1,405	(493)	-35.1%

Interest expense decreased with respect to the first three months of 2010-2011 due to two contrasting trends. On the one hand, interest paid to financial institutions went up by €175 thousand. On the other, there was a decrease in foreign exchange losses, caused primarily by the adjustment to period-end exchange rates of financial receivables due from the Group's British and U.S. affiliates.

The rise in factoring interest is the result of two new lines granted to Group companies, by Unicredit Factoring (GBP 5 million) and Mediofactoring (€4 million), as from April 2011.

29. Taxes

The breakdown of current and deferred taxes is as follows:

EUR/000	1Q11-12	1Q10-11	Change	%
Current taxes	(1,325)	(387)	(938)	n.a.
Deferred taxes	(24)	661	(685)	n.a.
Total taxes	(1,349)	274	(1,623)	n.a.

Deferred taxes have been provided with respect to the first-quarter losses of the Spanish and U.S. affiliates, in view of future taxable income, and are shown net of utilizations during the period by the U.K. affiliate.

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9. NON-RECURRING INCOME AND EXPENSES

As required by Consob Resolution no. 15519 of 27 July 2006, non-recurring income and expenses are shown separately in the income statement. These are generated by transactions or events that by nature do not occur on a regular basis as part of the business.

There were no non-recurring income or expenses during the period.

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10. SEGMENT REPORTING

For management purposes, the Group's operations are divided into the following business segments on the basis of the products and services produced:

- Italian Distribution
- International publishing
- New Media
- Newsstands
- Holding

The directors observe the results of each segment separately in order to decide how to allocate resources and monitor performance. Financial income and charges (including interest income and expense) and income tax are managed at the Group level and are not allocated to the operating segments. Capital investments, which total €70 thousand (€442 thousand in the first quarter of 2010-2011) for the purchase of property, plant and equipment, intangible assets and investment property, refer almost exclusively to the Italian Distribution segment as they did the previous year.

Transactions between business segments, consisting mostly of sales by 505 Games S.r.l. to Digital Bros S.p.A., are shown in the notes.

Profit margins for the segments were as follows:

	Consolidated figures in EUR/000	Italian Distribution	Newsstands	New Media	International Publishing	Holding	Total
1	Revenues	23,640	0	0	27,659	0	51,299
2	Revenue adjustments	(3,592)	0	0	(2,058)	0	(5,650)
3	Total revenues	20,048	0	0	25,601	0	45,649
4	Purchase of goods for resale	(14,366)	0	0	(10,220)	0	(24,586)
5	Purchase of services for resale	0	0	0	(2,771)	0	(2,771)
6	Royalties	(10)	0	0	(8,270)	0	(8,280)
7	Change in inventories of finished products	1,541	0	0	875	0	2,416
8	Total cost of goods sold	(12,835)	0	0	(20,386)	0	(33,221)
9	Gross profit (3+8)	7,213	0	0	5,215	0	12,428
10	Other income	7	0	0	25	0	32
11	Cost of services	(1,663)	0	0	(3,009)	(35)	(4,707)
12	Rent and leasing	(198)	0	0	(76)	0	(274)
13	Payroll costs	(1,066)	0	0	(1,298)	(315)	(2,679)
14	Other operating expenses	(277)	0	0	(200)	(52)	(529)
15	Total operating expenses	(3,204)	0	0	(4,583)	(402)	(8,189)
16	EBITDA (9+10+15)	4,016	0	0	657	(402)	4,271
17	Depreciation and amortization	(110)	0	0	(47)	(21)	(178)
18	Provisions	0	0	0	0	0	0
19	Impairment losses	0	0	0	0	0	0
20	Impairment reversal	0	0	0	0	0	0
21	Total deprec./amort., provisions and impairment	(110)	0	0	(47)	(21)	(178)
22	EBIT (16+21)	3,906	0	0	610	(423)	4,093

Italian Distribution

This business consists of the localization and subsequent distribution in Italy, on an exclusive basis, of video games acquired from international publishers.

Localization refers to the linguistic and cultural adaptation of games to the Italian market; the translation of instruction manuals; the dubbing of any voices contained in the game; the management of advertising campaigns; local media relations; and the organization of events for the product's rollout.

These operations are conducted by Digital Bros S.p.A., through the Halifax brand, and by the subsidiary Game Service S.r.l.

Halifax is the exclusive representative in Italy for publishers like Konami International, Disney Interactive Studios Inc, Sega, Square Enix and Capcom. The products are sold through all distribution channels, using sales representatives for retail shops and key account managers (company employees) for major chains.

Game Service S.r.l. performs distribution activities jointly with the parent company, in the form of rack jobbing (the exclusive management of gaming displays at large retail chains).

New Media

Due to unsatisfactory results, the Group shut down the European online gaming portal www.gametribe.com on 31 December 2009.

Starting with the next half-year this segment will include revenues and costs from the distribution of games over the Internet, and for the most part, revenues and costs from games published on Sony PSN, Microsoft Xbox Live and Nintendo Wii Ware.

International Publishing

In the International Publishing business, video game rights are acquired from developers, and the products are subsequently marketed by way of an international sales network after a phase of quality assurance, rating and approval.

International Publishing operations are handled by the subsidiary 505 Games S.r.l. (coordinator), together with 505 Games France S.a.s., 505 Games Ltd., 505 Games US Inc., and Digital Bros Iberia S.l operating respectively in the French, U.K., U.S. and Spanish markets. The German company 505 Games GmbH and the Swedish company 505 Games Nordic AB market the products of 505 Games S.r.l. in German-speaking countries and Scandinavia.

Newsstands

One of the Group's businesses is the distribution of video games as add-ons to products sold at newsstands, and the sale of multimedia DVDs and other entertainment-related publications. As a result of the streamlining process, newsstand distribution has been handled by the subsidiary Game Entertainment S.r.l. since fiscal year 2006-2007.

Holding

The Holding segment covers all of the parent company's coordination duties, including the management of investment property and corporate brands.

Information on geographical segments

Revenues are broken down below by region:

EUR/000	1Q11-12	1Q10-11	Change	
Italy	23,640	22,943	697	3.0%
Rest of Europe	22,032	3,689	18,343	n.a.
Americas	2,645	5,071	(2,426)	-47.8%
Rest of the world	2,982	881	2,101	n.a.
Total consolidated revenues	51,299	32,584	18,715	57.4%

As a percentage of total consolidated revenues, foreign sales—produced entirely by the International Publishing segment—rose from 29.5% to 53.9% due to the segment's significant increase in activity.

Sales in the rest of the world were made by the subsidiary 505 Games Ltd., mainly in Australia, the Middle East and South Africa.

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11. SUBSEQUENT EVENTS

The following significant events have occurred since 30 September 2011:

- 26 October 2011: the subsidiary 505 Games S.r.l. and Majesco Entertainment Company sign an agreement for the publishing and distribution of ZUMBA® Fitness 2 and another twelve titles. Management estimates that the agreement will bring in about €30 million in revenues in 2011-2012.
- 27 October 2011: the annual general meeting of Digital Bros S.p.A. approves the consolidated and separate financial statements for the year ended 30 June 2011 and elects a new board of directors and board of statutory auditors, whose term of office will expire with approval of the 30-2014 financial statements.

12. CONTINGENT ASSETS AND LIABILITIES

There were no contingent assets or liabilities at 30 September 2011.

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13. RELATED PARTY TRANSACTIONS

In accordance with CONSOB Communications DAC/RM/97001574 of 20 February 1997 and DAC/98015375 of 27 February 1998, it is hereby reported that all commercial and financial transactions between Digital Bros S.p.A. and its direct subsidiaries and associates have been conducted at arm's length and do not qualify as atypical or unusual transactions.

Subsidiaries

Commercial and financial transactions between the parent company Digital Bros S.p.A. and other Group companies in the three months to 30 September 2011 were settled at arm's length and are not necessarily reported in the interim management statement. Such transactions are summarized below:

EUR/000	Receivables		Payables		Revenues	Costs
	comm.	finan.	comm.	finan.		
505 Games S.r.l.	0	964	0	0	121	(578)
Game Media Networks S.r.l.	0	360	0	0	0	0
Game Service S.r.l.	0	1,687	(17)	0	0	(35)
Game Entertainment S.r.l.	11	0	0	(2,564)	431	0
505 Games France S.a.s.	0	2,161	0	0	0	0
505 Games Ltd.	0	2,272	0	0	0	0
Digital Bros Iberia S.l.	0	5,322	0	0	0	0
505 Games US Inc.	0	7,995	0	0	0	0
Total	11	20,761	(17)	(2,564)	552	(613)

The parent company also provides a centralized cash management service, using giro accounts to which the positive and negative balances between Group companies are transferred at least once per quarter. The accounts do not bear interest.

Commercial and financial transactions between 505 Games S.r.l. and other Group companies in the period to 30 September 2011 were settled at arm's length and are not necessarily reported in the interim management statement. Such transactions are summarized below:

EUR/000	Receivables		Payables		Revenues	Costs
	comm.	finan.	comm.	finan.		
505 Games Ltd.	0	0	0	0	12,394	(410)
505 Games France S.a.s.	0	0	0	0	3,180	0
Digital Bros Iberia S.l.	0	0	0	0	261	0
505 Games US Inc.	698	0	0	0	817	0
505 Games Nordic AB	0	6	0	0	0	0
505 Games GmbH	0	0	(73)	0	0	(38)
Total	698	6	(73)	0	16,652	(448)

The intercompany revenues of 505 Games S.r.l. consist of video game sales to 505 Games Ltd., 505 Games France S.a.s. and Digital Bros Iberia S.l., and the billing to 505 Games US Inc. of royalties and other costs incurred on its behalf.

The intercompany costs of 505 Games S.r.l. refer to the charge-back of payroll costs and operating expenses by 505 Games Ltd. and of marketing costs by 505 Games GmbH.

Other intercompany transactions of a more modest size are the charge-back of marketing expenses by 505 Nordic AB to 505 Games Ltd. for €4 thousand.

Other related parties

Transactions with other related parties concern the legal counsel provided by director Dario Treves, and the property leasing arrangement between Matov Immobiliare S.r.l. (owned by the Galante family) and the parent company and 505 Games France S.a.s.

Transactions pertaining to Digital Bros S.p.A. are as follows:

EUR/000	Receivables		Payables		Revenues	Costs
	comm.	finan.	comm.	finan.		
Dario Treves	0	0	(21)	0	0	(63)
Matov Imm. S.r.l.	0	635	(14)	0	0	(181)
Total	0	635	(35)	0	0	(244)

The financial receivable due to Digital Bros S.p.A. by Matov Imm. S.r.l. refers to the security deposit on the Via Tortona premises.

The rent paid by 505 Games France S.a.s. to Matov Imm. S.r.l. during the period amounts to €10 thousand.

Tax consolidation

Digital Bros S.p.A., in its capacity as parent company/consolidating company, has opted for the tax consolidation allowed by Italian law.

This has made it necessary to prepare a set of rules for intercompany relations to ensure that no prejudice is caused to the individual participants in the system.

14. ATYPICAL AND UNUSUAL TRANSACTIONS

There were no atypical or unusual transactions in this or the previous year, as defined by Consob Communication DEM 6064293 of 28 July 2006.

STATEMENT PURSUANT TO ART. 154- BIS (5) OF THE CONSOLIDATED FINANCE ACT

We, the undersigned, Abramo Galante as chairman of the board of directors and Stefano Salbe as financial reporting officer of the Digital Bros Group, hereby declare, including in accordance with Art. 154-bis (3) and (4) of Legislative Decree 58 of 24 February 1998:

- the adequacy of in relation to the characteristics of the business; and
- due compliance with
the administrative and accounting procedures for preparation of the interim management statement at 30 September 2011.

We also confirm that:

1. the interim management statement of the Digital Bros Group at 30 September 2011:
 - a) has been prepared in accordance with the applicable International Accounting Standards recognized by the European Union pursuant to Regulation 1606/2002/EC of the European Parliament and the Council of July 19th, 2002, in particular with IAS 34 - Interim Financial Reporting, and comply with the measures enacted for the implementation of Art. 9 of Legislative Decree 38/2005;
 - b) corresponds to the ledgers and accounting entries;
 - c) provides fair and truthful disclosure of the financial status and performance of Digital Bros S.p.A. and of the companies included in the consolidation;
2. the interim directors' report contains information on the key events that took place during the first three months of the year and their impact on the interim management statement at 30 September 2011, and describes the main risks and uncertainties. The interim directors' report also includes information on significant related party transactions.

Milan, 4 November 2011

Signed

Abramo Galante
Chairman of the board of directors

Stefano Salbe
Financial reporting officer