



Digital Bros S.p.A.

Consolidated interim report at 31 December 2007

(1st half of fiscal year 2007-2008)

Digital Bros S.p.A.

Via Bisceglie, 76 – 20152 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
at www.digital-bros.net.

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DIRECTORS' REPORT

CORPORATE OFFICERS

Board of Directors

| | |
|------------------|------------------------------------|
| Abramo Galante | Chairman and managing director (1) |
| Raffaele Galante | Managing director (1) |
| Davide Galante | Director (1) |
| Stefano Salbe | Director (1) (4) |
| Bruno Soresina | Director (3) |
| Dario Treves | Director (2) |
| Sergio Treves | Director (3) |
| Umberto Virri | 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

Umberto Virri (Chairman)
Sergio Treves
Bruno Soresina

Compensation Committee

Sergio Treves (Chairman)
Bruno Soresina
Umberto Virri

Board of Statutory Auditors

| | |
|---------------------|-------------------|
| Nicolino Cavalluzzo | Chairman |
| Franco Gaslini | Standing Auditor |
| Paolo Villa | Standing Auditor |
| Enrico Muscato | Alternate auditor |
| Marcello Priori | Alternate auditor |

The terms of office of the Board of Directors and Board of Statutory Auditors will end with the shareholders' meeting that approves the financial statements at 30 June 2008.

On 14 November 2005 the Board of Directors granted to managing directors Abramo 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.

GROUP STRUCTURE AND SCOPE OF CONSOLIDATION

The Digital Bros Group publishes, distributes and sells video games. In recent years it has diversified into operations complementary to video games themselves, to provide a wide range of digital entertainment products using the media in every available form. These operations are performed under distinctive brands to better denote the business segment.

With more than a decade's worth of experience in localizing and distributing video games in the Italian market (Distribution segment), in recent years the Group has expanded into video game publishing and distribution on an international scale (International Publishing segment) and into the new media industry through online gaming and Internet digital entertainment (New Media segment).

Given the distinct nature of distributing video games and DVDs through newsstands, and as a reflection of the Group's strategy of devoting steady attention to this business, the relevant costs, revenues, assets and liabilities are allocated to a separate Newsstands segment.

In addition to these is the Holding segment, responsible for all 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 development process and management of the buildings where the Group has its premises.

Group operations can be divided into the five segments described below:

Distribution: namely the localization of video games acquired from international publishers and their subsequent distribution in Italy, through key accounts and Web platforms or through a network of sales representatives.

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

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

The division of the parent company called 505 Games has been in charge of this segment for the past two years. For market reasons and in light of the segment's fast growth, since October 2006 International Publishing operations have been handled by the subsidiary 505 Games S.r.l. (following a name change from DB International S.r.l.), together with the newly incorporated Digital Bros France S.a.r.l. and 505 Games Ltd. operating respectively in France and the United Kingdom, and by D3DB S.r.l., a 50-50 joint

venture with Japan's D3 Publisher Inc. set up for the exclusive distribution of games in the lower price range in PAL system countries (Europe, Australia and South Africa).

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 is managed by the subsidiary Game Media Networks S.r.l. Since 1 January 2007, as an effect of the streamlining process, the online gaming business (the exploitation of international licenses for online games)—formerly run by 505 Games S.r.l.—has been operated by the subsidiary Game Media Networks S.r.l.

In 2006-2007, the Digital Bros Group and RCS Mediagroup formed the joint venture RCS DB Games S.p.A. to develop an online gaming portal and e-commerce/d-commerce operations for the Italian market. Through its subsidiary Game Media Networks S.r.l., Digital Bros is the joint venture's sole supplier of entertainment content.

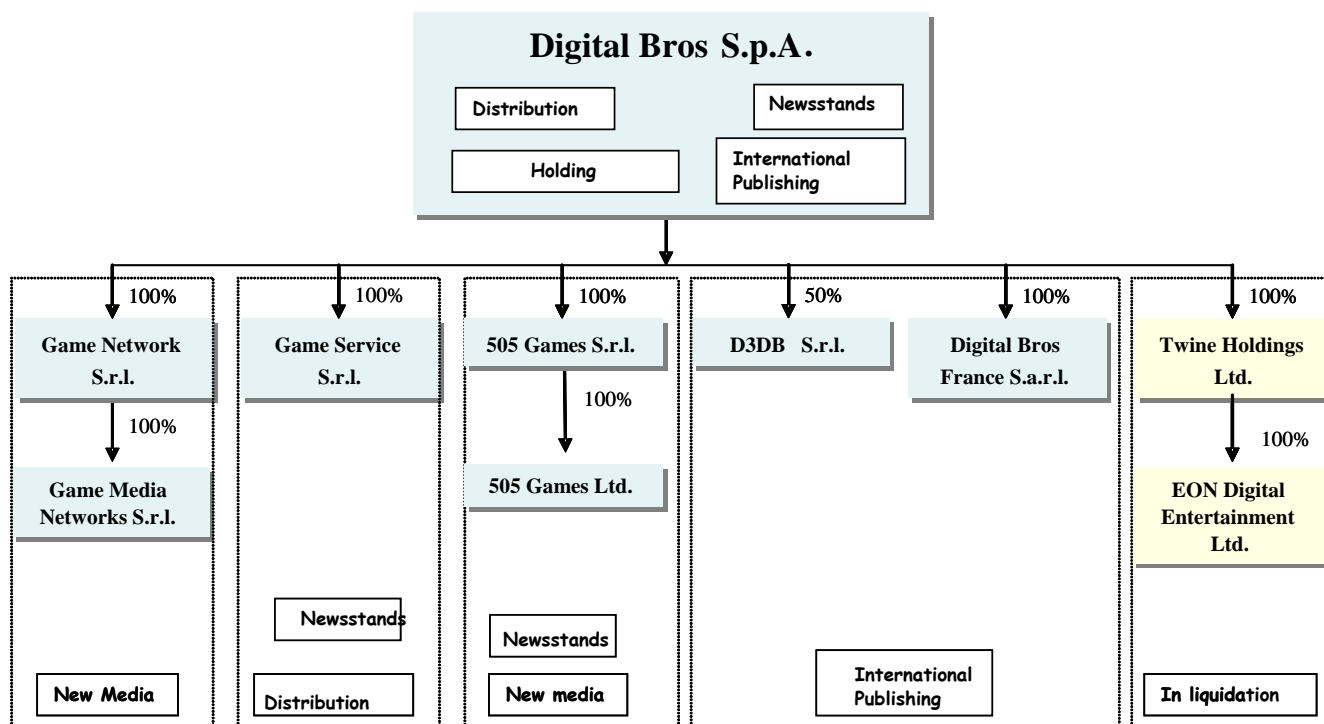
In May 2007 the Group incorporated Game Media Networks Ltd. in the United Kingdom, and in July it founded Game Media Networks S.a.r.l. in France. The purpose of the two companies is to provide sales, promotional and media relations support in those countries for the commercial development of the Group's European online gaming portal, www.gametribe.com.

Newsstands: the distribution of video games as newspaper or magazine add-ons, and the distribution through newsstands of digital entertainment publications. Since 2006-2007, as a result of the streamlining process, these operations have been handled by the subsidiary Game Entertainment S.r.l.

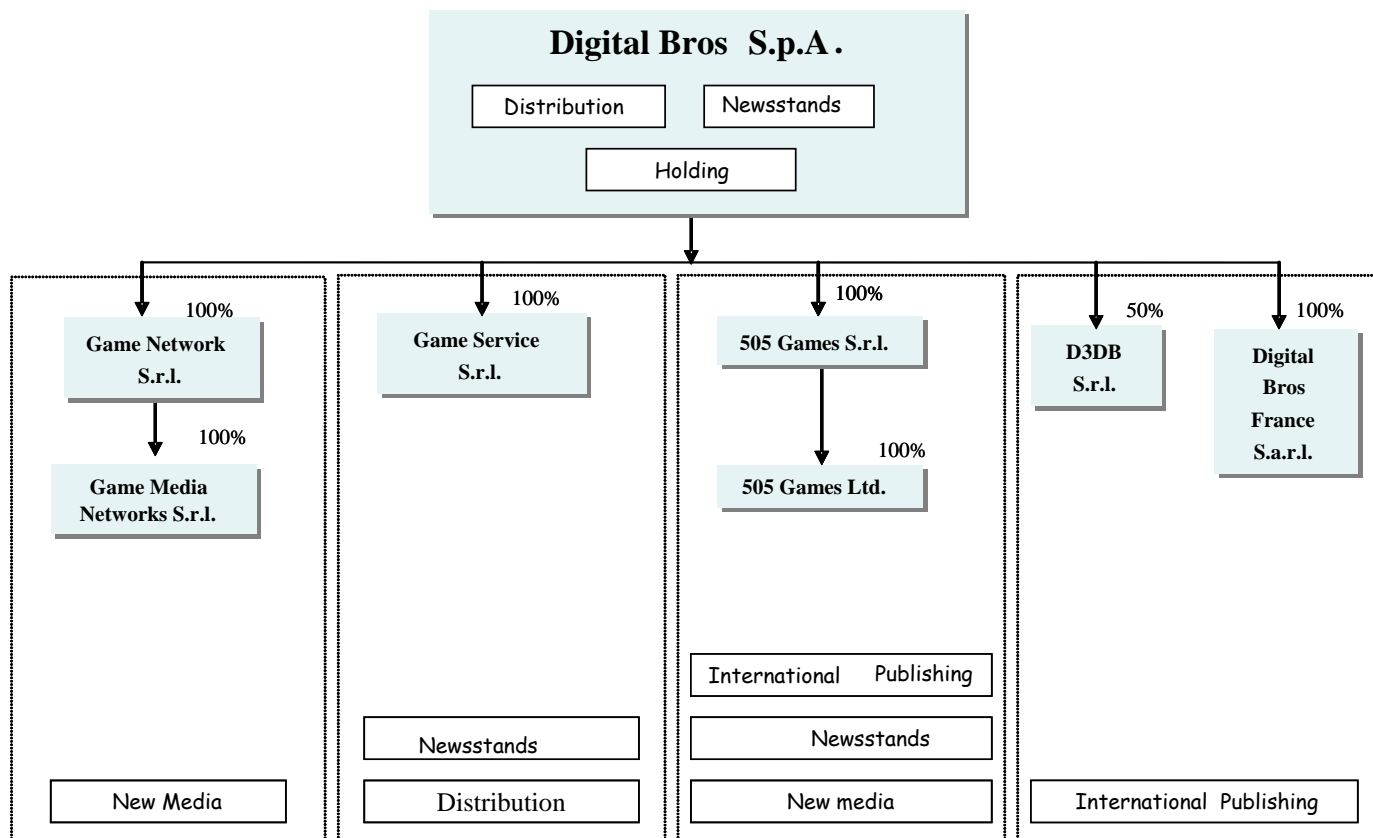
Holding: includes all coordination functions provided by the parent company Digital Bros S.p.A., specifically the management of property investments and brands, as well as Group finance operations.

The following charts present the Group's structure by business segment in the first half of 2007-2008 and in the same period last year, highlighting its total reorganization.

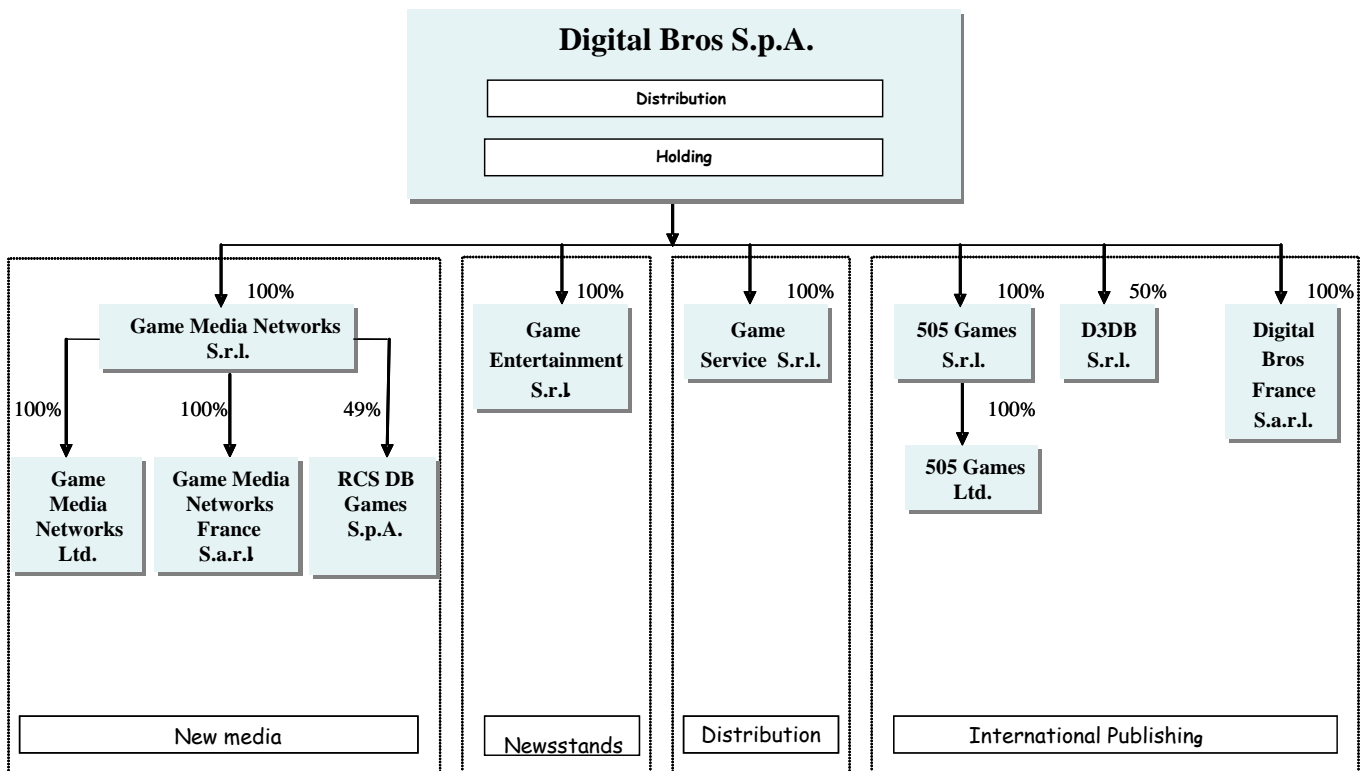
1st quarter of fiscal year 2006-2007:



2nd quarter of fiscal year 2006-2007:



1st half of fiscal year 2007-2008:



The scope of consolidation includes all companies that Digital Bros S.p.A. controls directly or indirectly, thus excluding the 50-50 joint venture D3DB S.r.l. and the newly incorporated RCS DB Games S.p.A., a joint venture held 49% by the subsidiary Game Media Networks S.r.l. and 51% by RCS Mediagroup.

Below is the list of consolidated companies at 31 December 2007:

| Name | Head office | Share capital | % held directly | % held indirectly | Consolidation method |
|---|-------------|------------------|-----------------|-------------------|----------------------|
| Digital Bros S.p.A. | Milan | EUR 5,644,334.80 | Parent company | | Line-by-line |
| Game Entertainment S.r.l.(3) | Milan | EUR 100,000 | 100% | | Line-by-line |
| Game Media Networks S.r.l. | Milan | EUR 10,000 | 100% | | Line-by-line |
| Game Service S.r.l. | Milan | EUR 50,000 | 100% | | Line-by-line |
| 505 Games S.r.l. (2) | Milan | EUR 100,000 | 100% | | Line-by-line |
| Digital Bros France S.a.r.l. | Lyons | EUR 100,000 | 100% | | Line-by-line |
| 505 Games Ltd. (1) | London | GBP 100,000 | | 100% | Line-by-line |
| Game Media Networks Ltd. (4) | Northampton | GBP 50,000 | | 100% | Line-by-line |
| Game Media Networks France S.a.r.l. (4) | Lyons | EUR 50,000 | | 100 % | Line-by-line |

(1) interest held 100% by 505 Games S.r.l.

(2) formerly called DB International S.r.l., subsequent to Game Network On Line S.r.l.

(3) formerly called Game Network S.r.l.

(4) interests held 100% by Game Media Networks S.r.l.

Below is a list of non-consolidated holdings carried at equity:

| Name | Head office | Share capital | % held |
|---------------------|-------------|---------------|--------|
| D3DB S.r.l. | Milan | EUR 10,000 | 50% |
| RCS DB Games S.p.A. | Milan | EUR 1,500,000 | 49% |

During the period the Group operated from the following locations:

| Company | Address | Type |
|-------------------------------------|---|-----------|
| Digital Bros S.p.A. | Via Bisceglie 76, Milan | Offices |
| Digital Bros S.p.A. | Via Petrella, Trezzano sul Naviglio (MI) | Warehouse |
| 505 Games Ltd. | Court Silbury Boulevard, Milton Keynes, U. K. | Offices |
| Game Service S.r.l. | Via Bisceglie 76, Milan | Offices |
| 505 Games S.r.l. | Via Bisceglie 76, Milan | Offices |
| Game Entertainment S.r.l. | Via Bisceglie 76, Milan | Offices |
| Game Media Networks S.r.l. | Via Bisceglie 76, Milan | Offices |
| Digital Bros France S.a.r.l. | 2, Chemin de la Chauderaie, Francheville, Lyons, France | Offices |
| Game Media Networks Ltd. | Court Silbury Boulevard, Milton Keynes, U. K. | Offices |
| Game Media Networks France S.a.r.l. | 2, Chemin de la Chauderaie, Francheville, Lyons, France | Offices |

THE VIDEO GAMES MARKET

Since the first video games came out about 25 years ago, the market has been growing non-stop. It has become a major segment of the entertainment market, and is now estimated to have outgrown the movie industry.

The market for video games only, excluding hardware, is worth more than €5 billion in Europe and the Italian market is estimated to top €400 million in value.

The industry owes its growth to several underlying factors, not least of which are: the constant technological progress that has made games increasingly polished in terms of look, playability and depth of content; the increasing number of players; and the fact that players are older, as those who start to play when young continue to do so at a later age allowing the market to release games for an ever more mature audience. Meanwhile, the industry is welcoming growing numbers of female players, who in recent years have become avid leisure time fans. In Europe, thanks to these trends, the video game sector now accounts for 34% of the total entertainment market.

Over the past year or so, several games have been launched that are perfect for mass consumption, in particular for the Nintendo DS console. These include Brain Trainer, a sort of digital puzzle book; various animal training games involving dogs, cats and even dolphins; cooking simulation games; and more. Because they are simple and user-friendly, this kind of game has strongly influenced the growth rates for the video game market in the past 12 months.

Meanwhile, technological development allows hardware manufacturers to launch more powerful consoles than ever that can also improve the quality of games. In fiscal year 2006-2007, the Nintendo Wii reached stores just before Christmas, and was joined by the Sony Playstation 3 in March.

The market performs in cycles, in parallel with the life cycle of the consoles for which the games are developed. With the rollout of a given console, the price of both the hardware and the video games is high, and relatively small quantities are sold. Console and game prices then gradually go down, as they pass from start-up 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 and consists of five main figures who often overlap:

- Developers
- Publishers
- Console manufacturers

- Distributors
- Dealers: specialized chains, mass retailers and shops.

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. 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 chain that allow the game to reach the consumer, as most of them are equipped with sales networks in various countries. They are also the ones who finance the phases of development and implement communication strategies to maximize international sales.

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

The console manufacturer is also the member of the value chain that physically prints the game, using its own equipment, on behalf of the international publishers. The game, therefore, must be approved in advance by the manufacturer, through a process known as submission. Only publishers selected in advance will be licensed to make 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 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 communication policies for a local audience and organizes media relations events. In other markets, like the U.K.'s, dealers are highly concentrated so publishers usually have a direct commercial presence. In Italy, the market is made up approximately 50% of mass retail outlets and 50% of independent, specialized stores. 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. For back-catalog sales, i.e. the sale of games that no longer qualify as current releases, dealers can access a reserved area of the website to check availability and place an order.

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, or online stores.

SEASONAL TRENDS IN THE MARKET

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.

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, while for exactly the opposite reason—a decrease in inventories and receivables—net working capital tends to fall off during the second half. The same trend is found for the net financial position, which reaches a high toward the end of the calendar year.

Seasonal trends can be influenced by launching hit products at times other than the traditional Christmas period, creating peaks at other times of the year.

SIGNIFICANT EVENTS DURING THE PERIOD

- August 2007: On the basis of results at 30 June 2007, the Board of Directors approves forecasts for fiscal year 2007-2008. Board member Stefano Salbe is named financial reporting officer, pursuant to Art. 154 bis of Legislative Decree 58/98, and given the appropriate powers. In the International Publishing segment, through its subsidiary 505 Games S.r.l. the Group signs an agreement with Cooking Mama Ltd. for the publication of “Cooking Mama 2,” the sequel to the game for Nintendo DS and Wii. “Cooking Mama 2” is scheduled for release in early 2008 and management expects it to contribute some €7 million to the year's revenues.

- September 2007: launch of Fueps.com, the vertical gaming portal created by RCS DB Games S.r.l.: the Group's online entertainment joint venture. The JV is owned 51% by RCS MediaGroup and 49% by Game Media Networks S.r.l. (a wholly-owned subsidiary of Digital Bros S.p.A.). Fueps, an acronym for “*Faccio l'Ultima e Poi Smetto*” (“one more game, then I'll stop”) offers a wide range of high-quality games and an innovative community and ranking system. Users can also shop from the site, choosing from around 3,000 titles for all consoles and PCs; download games directly to their computers; or browse a broad selection of cell phone games.

- October 2007: on 30 October the annual general meeting of Digital Bros S.p.A. resolves to:
 - approve the financial statements for the year ended 30 June 2007, along with the directors' and statutory auditors' reports;
 - allocate the net profit for the year, €2,045,555.30, as follows:
 - a dividend of €0.08 per share for a total of €1,128,867;
 - the remaining €16,688.30 to be carried forward.

At the meeting, the shareholders also:

- extend Reconta Ernst & Young S.p.A.'s assignment to audit the separate and consolidated financial statements for the years ending 30 June 2010, 2011 and 2012;
 - determine directors' fees for the year ending 30 June 2008;
 - authorize the purchase and sale of treasury shares.
-
- November 2007: Digital Bros S.p.A. rolls out the seventh edition of the soccer simulation game PES 2008, which sells 610,000 units during its first month on Italian shelves, topping the first-

month record for the sixth edition by 60,000 units and grossing €24.4 million. This confirms its position as the best-selling soccer title in the Italian video games market.

- December 2007: the Nintendo DS and Nintendo Wii game “Cooking Mama,” published and distributed in Europe through the subsidiary 505 Games S.r.l., tops one million units sold in Europe in just over a year since its release and proves to be the revelation of 2007. The eagerly awaited sequel, “Cooking Mama 2,” will make its European debut in early 2008.
- December 2007: Digital Bros S.p.A. strikes a deal with Russia's 1C Company, which leads the Central and Eastern European market in the development, publishing and distribution of video games for personal computers. Under the agreement, worth €15 million for calendar year 2008 (when the new brand 1C Games will be launched in Western Europe), Digital Bros S.p.A. will be the exclusive European publisher for all of 1C Company's existing games and for new games now in development. Fifteen new titles bearing the 1C Games brand are scheduled for 2008. As a result of the agreement, management has revised this year's growth forecasts for the International Publishing segment and for consolidated results, as mentioned in the “Outlook” section.

ECONOMIC PERFORMANCE IN THE HALF-YEAR

Below are the Group's results for the half-year to 31 December 2007, with comparative figures for the first six months of last year:

| | EUR/000 | 1H 2007-2008 | | 1H 2006-2007 | | Change | |
|----------------------------|--|-----------------|---------------|-----------------|---------------|----------------|--------------|
| 1 | Gross revenues | 97,823 | 111.8% | 81,684 | 108.6% | 16,139 | 19.8% |
| 2 | Revenue adjustments | (10,319) | -11.8% | (6,494) | -8.6% | (3,825) | 58.9% |
| 3 | Total net revenues | 87,504 | 100.0% | 75,190 | 100.0% | 12,314 | 16.4% |
| 4 | Purchase of goods for resale | (60,693) | -69.4% | (57,041) | -75.9% | (3,652) | 6.4% |
| 5 | Purchase of services for resale | (126) | -0.1% | (665) | -0.9% | 539 | -81.0% |
| 6 | Royalties | (3,319) | -3.8% | (2,628) | -3.5% | (691) | 26.3% |
| 7 | Change in inventories of finished products | 120 | 0.1% | 3,605 | 4.8% | (3,485) | -96.7% |
| 8 | Total cost of goods sold | (64,018) | -73.2% | (56,729) | -75.4% | (7,289) | 12.8% |
| 9 | Gross profit (3+8) | 23,486 | 26.8% | 18,461 | 24.6% | 5,025 | 27.2% |
| 10 | Other income | 3 | 0.0% | 11 | 0.0% | (8) | -72.7% |
| 11 | Cost of services | (7,875) | -9.0% | (4,652) | -6.2% | (3,223) | 69.3% |
| 12 | Rent and leasing | (195) | -0.2% | (196) | -0.3% | 1 | -0.3% |
| 13 | Payroll costs | (5,565) | -6.4% | (4,680) | -6.2% | (885) | 18.9% |
| 14 | Other operating expenses | (1,230) | -1.4% | (1,242) | -1.7% | 12 | -1.0% |
| 15 | Total operating expenses | (14,865) | -17.0% | (10,770) | -14.3% | (4,095) | 38.0% |
| 16 | EBITDA (9+10+15) | 8,624 | 9.9% | 7,702 | 10.2% | 922 | 12.0% |
| 17 | Depreciation and amortization | (290) | -0.3% | (570) | -0.8% | 280 | -49.1% |
| 18 | Provisions | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 19 | Asset impairment charge | (514) | -0.6% | (97) | -0.1% | (417) | n.a. |
| 20 | Impairment reversal | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 21 | Total depreciation, amortization and impairment | (804) | -0.9% | (667) | -0.9% | (137) | 20.5% |
| 22 | EBIT (16+21) | 7,820 | 8.9% | 7,035 | 9.4% | 785 | 11.2% |
| 23 | Interest income | 61 | 0.1% | 8 | 0.0% | 53 | n.a. |
| 24 | Interest expense | (1,854) | -2.1% | (1,149) | -1.5% | (705) | 61.5% |
| 25 | Net interest income (expense) | (1,793) | -2.0% | (1,141) | -1.5% | (652) | 57.3% |
| 26 | Profit before taxes (22+25) | 6,027 | 6.9% | 5,894 | 7.8% | 133 | 2.3% |
| 27 | Current taxes | (2,477) | -2.8% | (2,416) | -3.2% | (61) | 2.5% |
| 28 | Deferred taxes | (58) | -0.1% | 0 | 0.0% | (58) | n.a. |
| 29 | Total taxes | (2,535) | -2.9% | (2,416) | -3.2% | (119) | 4.9% |
| 30 | Net profit (26+29) | 3,492 | 4.0% | 3,478 | 4.6% | 14 | 0.4% |
| Earnings per share: | | | | | | | |
| 31 | Basic earnings per share (in EUR) | 0.25 | | 0.25 | | 0.00 | 0.0% |
| 32 | Diluted earnings per share (in EUR) | 0.25 | | 0.25 | | 0.00 | 0.0% |

In the first half of the year, the Group earned gross revenues of €97,823 thousand and net revenues of €87,504 thousand, for respective increases on the previous year's 1H figures of €16,319 thousand and €12,314 thousand. Below is the breakdown of revenues by business segment for the first half of this and the previous year:

| EUR/000 | Gross revenues | | | | Net revenues | | | |
|-----------------------------|----------------|---------------|---------------|--------------|---------------|---------------|---------------|--------------|
| | 1H07-08 | 1H06-07 | Change | | 1H07-08 | 1H06-07 | Change | |
| Distribution | 72,401 | 74,130 | (1,729) | -2.3% | 65,512 | 68,555 | (3,043) | -4.4% |
| Newsstands | 1,036 | 1,593 | (557) | n.a. | 974 | 1,593 | (619) | n.a. |
| New Media | 164 | 250 | (86) | -34.3% | 164 | 250 | (86) | -34.3% |
| International Publishing | 24,222 | 5,711 | 18,511 | 324.1% | 20,854 | 4,792 | 16,062 | 335.2% |
| Total gross revenues | 97,823 | 81,684 | 16,139 | 19.8% | 87,504 | 75,190 | 12,314 | 16.4% |

The first half is normally when turnover is at its highest for the entire calendar year, as the over-absorption of fixed costs provides a boost to profitability. This year, in particular, the second quarter featured several new game releases around the Christmas holidays, including Pro Evolution Soccer 2008, the soccer simulation game published for the global market by Konami International; and High School Musical, based on the teen hit television series and published by Disney Interactive Studios Inc.

Revenue growth in the first half results from ongoing expansion in the International Publishing division, where sales soared from €5,711 thousand in 2006-2007 to €24,222 thousand this year.

The cost of sales decreased as a percentage of revenues, from 75.4% to 73.2%, permitting a gross profit of €23,486 thousand for the half-year compared with €18,461 thousand the previous year (+€5,025 thousand).

Operating expenses rose by €4,095 thousand or 38%, growing at a faster pace than sales because of the higher costs incurred by the International Publishing segment. The most significant increase in operating expenses pertained to the cost of services, which rose from €4,652 thousand to €7,875 thousand (+€3,223 thousand), due mainly to the advertising costs incurred to support video game sales in the local and international market and the greater amount spent by the International Publishing segment for the production and localization of games. Payroll costs were up by €885 thousand, due to constant hiring in the New Media and International Publishing segments.

Depreciation, amortization and writedowns of €804 thousand mainly reflect a provision of €250 thousand for potential losses on receivables, and €264 thousand for the impairment of RCS DB Games S.p.A. as a result of its losses at 31 December 2007.

EBITDA rose from €7,702 thousand to €8,624 thousand, an increase of €922 thousand. EBIT grew proportionally, by €785 thousand.

The new method of accounting for royalties, introduced in the second half of last year, would have reduced EBITDA by €20 thousand for the half-year to 31 December 2006. The increase in EBITDA between that period and the first half of 2007-2008 as a result of the new accounting method would therefore be 21.9%, or €1,405 thousand.

At 31 December 2007, the Group held 50,502 ordinary Digital Bros S.p.A. shares, worth €266 thousand. The increase of 13,002 shares (€2 thousand) with respect to 30 June 2007 results from purchases during the period.

Earnings per share was unchanged at €0.25.

Basic earnings per share is calculated by dividing the net profit for the period by the number of shares outstanding, net of treasury shares. For the Group, diluted earnings per share is the same as basic earnings per share, since there were no financial instruments convertible into shares in circulation during the period.

SIGNIFICANT SUBSEQUENT EVENTS

In January 2008, through the subsidiary 505 Games S.r.l., the Digital Bros Group set up a new company in the United States called 505 Games (U.S.) Inc. to develop International Publishing operations in the American market.

Also in January, the Group paid in the capital for the incorporation of a new company in Spain, which will develop International Publishing operations in the Spanish market. The company should be operational as from July 2008.

Since January 2008 the Group has opted for consolidated VAT filing.

OUTLOOK

The following forecasts have been revised to reflect the positive business trends during the period and the contract with Russia's 1C Company:

| EUR/000 | FORECAST 2007-2008 | ACTUAL 2006-2007 | Change | % |
|----------------|--------------------|------------------|--------|-------|
| Gross revenues | 150,474 | 133,926 | 16,548 | 12.3% |
| EBIT | 11,086 | 9,378 | 1,708 | 18.2% |

The higher forecasts for the 2007-2008 budget were approved by the Board of Directors on 7 August 2007. Below is a comparison between the new 2007-2008 forecast and the budget set for the year:

| EUR/000 | FORECAST 2007-2008 | BUDGET 2007-2008 | Difference | % |
|----------------|--------------------|------------------|------------|-------|
| Gross revenues | 150,474 | 140,474 | 10,000 | 7.1% |
| EBIT | 11,086 | 10,086 | 1,000 | 10.0% |

The revised forecast per business segment is as follows:

| EUR/000 | Distribution | Newsstands | New Media | Publishing | Holding | Total |
|----------------|--------------|------------|-----------|------------|---------|----------------|
| Gross revenues | 96,026 | 2,002 | 1,003 | 51,443 | 0 | 150,474 |
| EBITDA | 6,905 | 510 | (1,995) | 7,464 | (1,488) | 11,396 |
| EBIT | 6,731 | 503 | (2,011) | 7,428 | (1,565) | 11,086 |

Forecasts for 2007-2008 are based on an assumption of lower revenues from the traditional business of distributing video games in Italy, due to the gradual replacement of the Sony Playstation 2 with the Sony Playstation 3. Although volumes are expected to stay high, this factor will reduce the average unit prices for games played on the mature console, while the new console will not yet be present in enough homes to allow distributors to make up the difference. The transition period requires forecasts for the distribution segment to be highly conservative, in light of past experience.

As mentioned earlier, the market was especially lucrative in the first half of the year for products designed for the mass market, particularly women, to be played on Nintendo consoles. If the trend continues in the coming quarters, management will also raise forecasts for revenues in the Distribution segment.

The Group's strategy of expanding upstream in the International Publishing segment and of diversifying geographically should more than compensate for the drop in Distribution revenues. Turnover by the International Publishing segment, in fact, is expected to more than double once again this year, to approximately €1 million.

Revenue and margin forecasts for the Newsstand segment are slightly down, reflecting performance in the previous year. In the New Media segment, sizeable investments are planned for the launch of the

European online gaming portal, www.gametribe.com. This will significantly increase the operating loss with respect to 2006-2007.

Management constantly monitors the company's performance using various means of control, compares forecasts with actual figures on a monthly basis, and informs the market promptly if there are any significant changes with respect to data announced in the past.



Financial statements

FINANCIAL STATEMENTS

Digital Bros Group

Consolidated balance sheet at 31 December 2007

| | EUR/000 | 31 December 2007 | 30 June 2007 | Change | |
|----|--|------------------|-----------------|-----------------|---------------|
| | Non-current assets | | | | |
| 1 | Property, plant and equipment | 3,402 | 3,378 | 24 | 0.7% |
| 2 | Investment property | 455 | 455 | 0 | 0.0% |
| 3 | Intangible assets | 590 | 517 | 73 | 14.1% |
| 4 | Equity investments | 476 | 740 | (264) | -35.7% |
| 5 | Non-current receivables and other assets | 111 | 61 | 50 | 82.0% |
| 6 | Deferred tax assets | 2,588 | 2,695 | (107) | -4.0% |
| | Total non-current assets | 7,622 | 7,846 | (224) | -2.9% |
| | Non-current liabilities | | | | |
| 7 | Employee benefits | (609) | (663) | 54 | -8.1% |
| 8 | Non-current provisions | (234) | (206) | (28) | 13.6% |
| 9 | Other non-current payables and liabilities | 0 | 0 | 0 | 0.0% |
| | Total non-current liabilities | (843) | (869) | 26 | -3.0% |
| | Net working capital | | | | |
| 10 | Inventories | 39,160 | 39,040 | 120 | 0.3% |
| 11 | Trade receivables | 63,480 | 31,157 | 32,323 | n.a. |
| 12 | Tax credits | 1,785 | 2,538 | (753) | -29.7% |
| 13 | Other current assets | 10,721 | 8,412 | 2,309 | 27.4% |
| 14 | Trade payables | (18,851) | (15,570) | (3,281) | 21.1% |
| 15 | Taxes payable | (4,706) | (3,533) | (1,173) | 33.2% |
| 16 | Current provisions | 0 | 0 | 0 | 0.0% |
| 17 | Other current liabilities | (2,206) | (2,689) | 483 | -18.0% |
| | Total net working capital | 89,383 | 59,355 | 30,028 | 50.6% |
| | Capital and reserves | | | | |
| 18 | Share capital | (5,644) | (5,644) | 0 | 0.0% |
| 19 | Reserves | (19,457) | (19,457) | 0 | 0.0% |
| 20 | Treasury shares | 266 | 204 | 62 | 30.4% |
| 21 | Profit (losses) carried forward | (9,842) | (7,493) | (2,349) | 31.3% |
| | Total capital and reserves | (34,677) | (32,390) | (2,287) | 7.1% |
| | Total net assets | 61,485 | 33,942 | 27,543 | 81.1% |
| | Current net debt | | | | |
| 22 | Cash and cash equivalents | 5,740 | 7,080 | (1,340) | -18.9% |
| 23 | Short-term payables to banks | (48,268) | (32,676) | (15,592) | 47.7% |
| 24 | Other current financial liabilities | (6,542) | (3,250) | (3,292) | n.a. |
| | Current net debt | (49,070) | (28,846) | (20,224) | 70.1% |
| | Non-current net debt | | | | |
| 25 | Non-current financial assets | 0 | 0 | 0 | 0.0% |
| 26 | Non-current payables to banks | (10,200) | (2,673) | (7,527) | 281.6% |
| 27 | Other non-current financial liabilities | (2,215) | (2,423) | 208 | -8.6% |
| | Non-current net debt | (12,415) | (5,096) | (7,319) | 143.6% |
| | Total net debt | (61,485) | (33,942) | (27,543) | 81.1% |

Digital Bros Group

Consolidated income statement for the half-year to 31 December 2007

| | EUR/000 | 1H 2007-2008 | | 1H 2006-2007 | | Change | |
|-----------|--|-----------------|---------------|-----------------|---------------|----------------|--------------|
| 1 | Gross revenues | 97,823 | 111.8% | 81,684 | 108.6% | 16,139 | 19.8% |
| 2 | Revenue adjustments | (10,319) | -11.8% | (6,494) | -8.6% | (3,825) | 58.9% |
| 3 | Total net revenues | 87,504 | 100.0% | 75,190 | 100.0% | 12,314 | 16.4% |
| 4 | Purchase of goods for resale | (60,693) | -69.4% | (57,041) | -75.9% | (3,652) | 6.4% |
| 5 | Purchase of services for resale | (126) | -0.1% | (665) | -0.9% | 539 | -81.0% |
| 6 | Royalties | (3,319) | -3.8% | (2,628) | -3.5% | (691) | 26.3% |
| 7 | Change in inventories of finished products | 120 | 0.1% | 3,605 | 4.8% | (3,485) | -96.7% |
| 8 | Total cost of goods sold | (64,018) | -73.2% | (56,729) | -75.4% | (7,289) | 12.8% |
| 9 | Gross profit (3+8) | 23,486 | 26.8% | 18,461 | 24.6% | 5,025 | 27.2% |
| 10 | Other income | 3 | 0.0% | 11 | 0.0% | (8) | -72.7% |
| 11 | Cost of services | (7,875) | -9.0% | (4,652) | -6.2% | (3,223) | 69.3% |
| 12 | Rent and leasing | (195) | -0.2% | (196) | -0.3% | 1 | -0.3% |
| 13 | Payroll costs | (5,565) | -6.4% | (4,680) | -6.2% | (885) | 18.9% |
| 14 | Other operating expenses | (1,230) | -1.4% | (1,242) | -1.7% | 12 | -1.0% |
| 15 | Total operating expenses | (14,865) | -17.0% | (10,770) | -14.3% | (4,095) | 38.0% |
| 16 | EBITDA (9+10+15) | 8,624 | 9.9% | 7,702 | 10.2% | 922 | 12.0% |
| 17 | Depreciation and amortization | (290) | -0.3% | (570) | -0.8% | 280 | -49.1% |
| 18 | Provisions | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 19 | Asset impairment charge | (514) | -0.6% | (97) | -0.1% | (417) | n.a. |
| 20 | Impairment reversal | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 21 | Total depreciation, amortization and impairment | (804) | -0.9% | (667) | -0.9% | (137) | 20.5% |
| 22 | EBIT (16+21) | 7,820 | 8.9% | 7,035 | 9.4% | 785 | 11.2% |
| 23 | Interest income | 61 | 0.1% | 8 | 0.0% | 53 | n.a. |
| 24 | Interest expense | (1,854) | -2.1% | (1,149) | -1.5% | (705) | 61.5% |
| 25 | Net interest income (expense) | (1,793) | -2.0% | (1,141) | -1.5% | (652) | 57.3% |
| 26 | Profit before taxes (22+25) | 6,027 | 6.9% | 5,894 | 7.8% | 133 | 2.3% |
| 27 | Current taxes | (2,477) | -2.8% | (2,416) | -3.2% | (61) | 2.5% |
| 28 | Deferred taxes | (58) | -0.1% | 0 | 0.0% | (58) | n.a. |
| 29 | Total taxes | (2,535) | -2.9% | (2,416) | -3.2% | (119) | 4.9% |
| 30 | Net profit (26+29) | 3,492 | 4.0% | 3,478 | 4.6% | 14 | 0.4% |
| | Earnings per share: | | | | | | |
| 31 | Basic earnings per share (in EUR) | 0.25 | | 0.25 | | 0.00 | 0.0% |
| 32 | Diluted earnings per share (in EUR) | 0.25 | | 0.25 | | 0.00 | 0.0% |

Digital Bros Group

Consolidated cash flow statement for the half-year to 31 December 2007

| EUR/000 | 1H 2007-2008 | 1H 2006-2007 |
|---|-----------------|-----------------|
| A. Opening net debt | (33,942) | (20,741) |
| Cash flow from operating activities | | |
| Group's share of net profit (loss) for the year | 3,492 | 3,478 |
| Depreciation, amortization and provisions: | | |
| Amortization | 113 | 440 |
| Depreciation | 178 | 130 |
| Net change in other provisions | 28 | 46 |
| Net change in employee benefit provisions | (54) | 134 |
| B. TOTAL | 3,757 | 4,228 |
| Change in net working capital | | |
| Inventories | (120) | (3,608) |
| Trade receivables | (32,323) | (30,341) |
| Tax credits | 753 | (568) |
| Other current assets | (2,309) | (4,896) |
| Trade payables | 3,281 | 9,134 |
| Taxes payable | 1,173 | 1,511 |
| Current provisions | 0 | |
| Other current liabilities | (483) | 19 |
| C. TOTAL | (30,028) | (28,751) |
| Cash flow from investing activities | | |
| Investments in intangible assets | (185) | (216) |
| Investments in property, plant and equipment | (202) | (106) |
| Investments in financial fixed assets | 320 | 0 |
| D. TOTAL | (67) | (322) |
| Cash flow from financing activities | | |
| Capital increases | 0 | 0 |
| E. TOTAL | 0 | 0 |
| Movements in consolidated capital and reserves | | |
| Dividends paid | (1,128) | (1,117) |
| Change in treasury shares held | (62) | 0 |
| Increases (decreases) in other components of capital and reserves | (15) | (18) |
| F. TOTAL | (1,205) | (1,135) |
| G. Cash flow for the period (B+C+D+E+F) | (27,543) | (25,980) |
| H. Closing net debt (A+G) | (61,485) | (46,721) |

Details of consolidated cash flow movements by maturity

| EUR/000 | 1H 2007-2008 | 1H 2006-2007 |
|---|---------------------|---------------------|
| | | |
| Increase (decrease) in securities and cash & cash equivalents | (1,340) | 1,376 |
| Decrease (increase) in short-term payables to banks | (15,592) | (20,092) |
| Decrease (increase) in other current financial liabilities | (3,292) | (6,742) |
| | | |
| Short-term cash flow for the period | (20,224) | (25,458) |
| | | |
| Medium-term cash flow for the period | (7,319) | (522) |
| | | |
| Cash flow for the period | (27,543) | (25,980) |

Digital Bros Group

Statement of changes in consolidated shareholders' equity

| EUR/000 | Share capital (A) | Share premium reserve | Legal reserve | IAS transition reserve | Other reserves | 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 2006 | 5,644 | 16,954 | 1,129 | 1,367 | (9) | 19,441 | (671) | 965 | 3,823 | 4,788 | 29,202 |
| Allocation of net profit | 0 | | | | | 0 | 0 | 3,823 | (3,823) | 0 | 0 |
| Dividend payments | 0 | | | | | 0 | 0 | (1,117) | | (1,117) | (1,117) |
| Other changes | 0 | | | | 2 | 2 | 0 | (20) | | (20) | (18) |
| Net profit for the period | 0 | | | | | 0 | 0 | | 3,478 | 3,478 | 3,478 |
| Total at 31 December 2006 | 5,644 | 16,954 | 1,129 | 1,367 | (7) | 19,443 | (671) | 3,651 | 3,478 | 7,129 | 31,545 |
| Purchase of treasury shares | 0 | | | | | 0 | 467 | | | 0 | 467 |
| Other changes | 0 | | | | 14 | 14 | 0 | 12 | | 12 | 26 |
| Net profit for the period | 0 | | | | | 0 | 0 | | 352 | 352 | 352 |
| Total at 30 June 2007 | 5,644 | 16,954 | 1,129 | 1,367 | 7 | 19,457 | (204) | 3,663 | 3,830 | 7,493 | 32,390 |
| Allocation of net profit | 0 | | | | | 0 | 0 | 3,830 | (3,830) | 0 | 0 |
| Dividend payments | 0 | | | | | 0 | 0 | (1,128) | | (1,128) | (1,128) |
| Purchase of treasury shares | 0 | | | | | 0 | (62) | | | 0 | (62) |
| Other changes | 0 | | | | | 0 | 0 | (15) | | (15) | (15) |
| Net profit for the period | 0 | | | | | 0 | 0 | | 3,492 | 3,492 | 3,492 |
| Total at 31 December 2007 | 5,644 | 16,954 | 1,129 | 1,367 | 7 | 19,457 | (266) | 6,350 | 3,492 | 9,842 | 34,677 |

Segment reporting

Consolidated income statement

| | Consolidated figures in EUR/000 | Distribution | Newsstands | New Media | Publishing | Holding | Total |
|-----------|--|-----------------|--------------|----------------|-----------------|--------------|-----------------|
| 1 | Gross revenues | 72,401 | 1,036 | 164 | 24,222 | 0 | 97,823 |
| 2 | Revenue adjustments | (6,889) | (62) | 0 | (3,368) | 0 | (10,319) |
| 3 | Total net revenues | 65,512 | 974 | 164 | 20,854 | 0 | 87,504 |
| 4 | Purchase of goods for resale | (50,027) | (1,070) | (17) | (9,580) | (0) | (60,693) |
| 5 | Purchase of services for resale | 0 | (126) | 0 | 0 | 0 | (126) |
| 6 | Royalties | (189) | (294) | (20) | (2,816) | 0 | (3,319) |
| 7 | Change in inventories of finished products | (486) | 946 | 0 | (339) | 0 | 120 |
| 8 | Total cost of goods sold | (50,703) | (544) | (36) | (12,735) | (0) | (64,018) |
| 9 | Gross profit (3+8) | 14,809 | 431 | 128 | 8,119 | (0) | 23,486 |
| 10 | Other income | 3 | 0 | 0 | 0 | 0 | 3 |
| 11 | Cost of services | (3,925) | (403) | (662) | (2,837) | (49) | (7,875) |
| 12 | Rent and leasing | (140) | 0 | (12) | (40) | (4) | (195) |
| 13 | Payroll costs | (3,431) | 0 | (639) | (909) | (586) | (5,565) |
| 14 | Other operating expenses | (838) | (2) | (21) | (121) | (247) | (1,230) |
| 15 | Total operating expenses | (8,333) | (405) | (1,334) | (3,907) | (886) | (14,865) |
| 16 | EBITDA (9+10+15) | 6,479 | 26 | (1,206) | 4,211 | (886) | 8,624 |
| 17 | Depreciation and amortization | (149) | (2) | (17) | (38) | (85) | (290) |
| 18 | Provisions | 0 | 0 | 0 | 0 | 0 | 0 |
| 19 | Asset impairment charge | (250) | 0 | (264) | 0 | 0 | (514) |
| 20 | Impairment reversal | 0 | 0 | 0 | 0 | 0 | 0 |
| 21 | Total depreciation, amortization and impairment | (399) | (2) | (281) | (38) | (85) | (804) |
| 22 | EBIT (16+21) | 6,081 | 24 | (1,487) | 4,173 | (971) | 7,820 |

Digital Bros S.p.A.

Balance sheet at 31 December 2007

| | EUR/000 | 31 December 2007 | 30 June 2007 | Change | |
|--------------------------------|--|------------------|-----------------|-----------------|--------------|
| Non-current assets | | | | | |
| 1 | Property, plant and equipment | 3,260 | 3,253 | 7 | 0.2% |
| 2 | Investment property | 455 | 456 | (1) | -0.2% |
| 3 | Intangible assets | 503 | 466 | 37 | 7.9% |
| 4 | Equity investments | 2,104 | 1,355 | 749 | 55.3% |
| 5 | Non-current receivables and other assets | 8 | 4 | 4 | 100.0% |
| 6 | Deferred tax assets | 1,027 | 1,027 | 0 | 0.0% |
| | Total non-current assets | 7,357 | 6,561 | 796 | 12.1% |
| Non-current liabilities | | | | | |
| 7 | Employee benefits | (592) | (653) | 61 | -9.3% |
| 8 | Non-current provisions | (234) | (206) | (28) | 13.6% |
| 9 | Other non-current payables and liabilities | 0 | 0 | 0 | 0.0% |
| | Total non-current liabilities | (826) | (859) | 33 | -3.8% |
| Net working capital | | | | | |
| 10 | Inventories | 31,092 | 34,298 | (3,206) | -9.3% |
| 11 | Trade receivables | 40,770 | 18,758 | 22,012 | 117.3% |
| 12 | Due from subsidiaries | 19,557 | 10,626 | 8,931 | 84.0% |
| 13 | Tax credits | 350 | 1,694 | (1,344) | -79.3% |
| 14 | Other current assets | 2,376 | 3,558 | (1,182) | -33.2% |
| 15 | Trade payables | (12,417) | (8,739) | (3,678) | 42.1% |
| 16 | Due to subsidiaries | (570) | (1,801) | 1,231 | -68.4% |
| 17 | Taxes payable | (1,726) | (1,746) | 20 | -1.1% |
| 18 | Current provisions | 0 | 0 | 0 | 0.0% |
| 19 | Other current liabilities | (1,972) | (2,180) | 208 | -9.5% |
| | Total net working capital | 77,460 | 54,468 | 22,992 | 42.2% |
| Capital and reserves | | | | | |
| 20 | Share capital | (5,644) | (5,644) | 0 | 0.0% |
| 21 | Reserves | (17,965) | (17,965) | 0 | 0.0% |
| 22 | Treasury shares | 266 | 204 | 62 | 30.4% |
| 23 | Profit (losses) carried forward | (5,734) | (5,704) | (30) | 0.5% |
| | Total capital and reserves | (29,077) | (29,109) | 32 | -0.1% |
| | Total net assets | 54,914 | 31,061 | 23,853 | 76.8% |
| Current net debt | | | | | |
| 24 | Cash and cash equivalents | 4,010 | 6,739 | (2,729) | -40.5% |
| 25 | Short-term payables to banks | (47,437) | (31,007) | (16,430) | 53.0% |
| 26 | Other current financial liabilities | (5,037) | (3,250) | (1,787) | 55.0% |
| | Current net debt | (48,464) | (27,518) | (20,946) | 76.1% |
| Non-current net debt | | | | | |
| 27 | Non-current financial assets | 0 | 0 | 0 | 0.0% |
| 28 | Non-current payables to banks | (4,234) | (1,120) | (3,114) | n.a. |
| 29 | Other non-current financial liabilities | (2,216) | (2,423) | 207 | -8.5% |
| | Non-current net debt | (6,450) | (3,543) | (2,907) | 82.0% |
| | Total net debt | (54,914) | (31,061) | (23,853) | 76.8% |

Digital Bros S.p.A.
Income statement for the half-year to 31 December 2007

| | EUR/000 | 1H 2007-2008 | | 1H 2006-2007 | | Change | |
|-----------|--|-----------------|---------------|-----------------|---------------|----------------|---------------|
| 1 | Gross revenues | 72,989 | 108.1% | 74,990 | 107.3% | (2,001) | -2.7% |
| 2 | Revenue adjustments | (5,472) | -8.1% | (5,109) | -7.3% | (363) | 7.1% |
| 3 | Total net revenues | 67,517 | 100.0% | 69,881 | 100.0% | (2,364) | -3.4% |
| 4 | Purchase of goods for resale | (50,275) | -74.5% | (54,076) | -77.4% | 3,801 | -7.0% |
| 5 | Purchase of services for resale | 0 | 0.0% | 0 | 0.0% | 0 | n.a. |
| 6 | Royalties | (340) | -0.5% | (1,781) | -2.5% | 1,441 | -80.9% |
| 7 | Change in inventories of finished products | (3,206) | -4.7% | 1,886 | 2.7% | (5,092) | n.a. |
| 8 | Total cost of goods sold | (53,821) | -79.7% | (53,971) | -77.2% | 150 | -0.3% |
| 9 | Gross profit (3+8) | 13,696 | 20.3% | 15,910 | 22.8% | (2,214) | -13.9% |
| 10 | Other income | 765 | 1.1% | 1,826 | 2.6% | (1,061) | -58.1% |
| 11 | Cost of services | (4,266) | -6.3% | (5,281) | -7.6% | 1,015 | -19.2% |
| 12 | Rent and leasing | (144) | -0.2% | (172) | -0.2% | 28 | -16.3% |
| 13 | Payroll costs | (4,399) | -6.5% | (3,985) | -5.7% | (414) | 10.4% |
| 14 | Other operating expenses | (1,086) | -1.6% | (1,083) | -1.5% | (3) | 0.3% |
| 15 | Total operating expenses | (9,895) | -14.7% | (10,521) | -15.1% | 626 | -6.0% |
| 16 | EBITDA (9+10+15) | 4,566 | 6.8% | 7,215 | 10.3% | (2,649) | -36.7% |
| 17 | Depreciation and amortization | (228) | -0.3% | (543) | -0.8% | 315 | -58.0% |
| 18 | Provisions | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 19 | Asset impairment charge | (250) | -0.4% | (1,015) | -1.5% | 765 | -75.4% |
| 20 | Impairment reversal | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 21 | Total depreciation, amortization and impairment | (478) | -0.7% | (1,558) | -2.2% | 1,080 | -69.3% |
| 22 | EBIT (16+21) | 4,088 | 6.1% | 5,657 | 8.1% | (1,569) | -27.7% |
| 23 | Interest income | 57 | 0.1% | 8 | 0.0% | 49 | n.a. |
| 24 | Interest expense | (1,529) | -2.3% | (1,145) | -1.6% | (384) | 33.5% |
| 25 | Net interest income (expense) | (1,472) | -2.2% | (1,137) | -1.6% | (335) | 29.5% |
| 26 | Profit before taxes (22+25) | 2,616 | 3.9% | 4,520 | 6.5% | (1,904) | -42.1% |
| 27 | Current taxes | (1,457) | -2.2% | (1,800) | -2.6% | 343 | -19.1% |
| 28 | Deferred taxes | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 29 | Total taxes | (1,457) | -2.2% | (1,800) | -2.6% | 343 | -19.1% |
| 30 | Net profit (26+29) | 1,159 | 1.7% | 2,720 | 3.9% | (1,561) | -57.4% |

Reconciliation between the capital and reserves and net profit of Digital Bros S.p.A. and the corresponding consolidated figures

| | Profit for the period | Capital and reserves |
|---|------------------------------|-----------------------------|
| | 1H 2007-2008 | 31 December 2007 |
| | | |
| Capital & reserves and profit of Digital Bros S.p.A. | 1,159 | 29,077 |
| Capital & reserves and profit of subsidiaries | 2,234 | 8,300 |
| Carrying value of equity investments | 0 | (2,367) |
| | | |
| Consolidation adjustments | | |
| Elimination of intercompany profits | 99 | (333) |
| Other adjustments | 0 | 0 |
| | | |
| Capital & reserves and profit of the Group | 3,492 | 34,677 |

The reconciliation between Digital Bros S.p.A.'s capital and reserves and net profit and the corresponding consolidated figures shows no significant movements for the period, except for the elimination of intercompany profits.

ACCOUNTING STANDARDS AND PRINCIPLES

The consolidated quarterly report of the Digital Bros Group for the first half of fiscal year 2007-2008 was approved by resolution of the Board of Directors on 27 March 2008. Digital Bros S.p.A. is a joint-stock company incorporated and domiciled in Italy. It is listed in the STAR segment of the Milan Stock Exchange.

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

These financial statements were prepared in accordance with the International Accounting Standards (IAS/IFRS) published by the International Accounting Standards Board (IASB) at 31 December 2007, as approved by the European Union. The term "IFRS" encompasses all of the International Accounting Standards (IAS) and all interpretations published by the International Financial Reporting Interpretations Committee (IFRIC), including those previously issued by the Standing Interpretations Committee (SIC). All amounts are expressed in thousands of euros, unless otherwise specified.

In addition, the consolidated financial statements at 31 December 2007, which are compliant with IAS 34, have been prepared in accordance with Art. 81 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.

The interim report does not contain all of the information and notes included in the year-end financial statements, so they should be read in conjunction with the Digital Bros Group's consolidated financial statements at 30 June 2007.

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 2007.

In exception to CONSOB Resolution 15519 of 27 July 2006, the financial statements do not include sub-headings for positions and/or transactions with related parties, as these are not deemed significant for purposes of understanding the Group's financial position, performance and cash flows. In accordance with CONSOB announcement DEM/6064293 of 28 July 2006, the information on related parties is included in the notes.

The income statements do not show sub-headings for costs and income arising from non-recurring events and/or transactions, as these are immaterial.

The financial statements are made up of:

- consolidated balance sheet at 31 December 2007 with comparative figures at 30 June 2007 (the previous year-end reporting date);
- consolidated income statement for the half-year ended 31 December 2007, with comparative figures for the first half of the previous year;
- consolidated cash flow statement for the period under review, in comparison with the consolidated cash flow statement for the same period last year;
- details of cash flows by maturity, compared with movements taking place in the same period of 2006-2007;
- statement of changes in consolidated shareholders' equity for the half-year to 31 December 2007, preceded by changes in consolidated shareholders' equity between 1 July 2006 and 31 December 2006 and between 1 January 2007 and 30 June 2007;
- income statement: segment reporting;
- balance sheet of the parent company Digital Bros S.p.A. at 31 December 2007 with comparative figures at 30 June 2007 (the year-end reporting date);
- Digital Bros S.p.A. income statement for the first half of 2007-2008, with comparative figures for the first half of the previous year;
- reconciliation between the capital and reserves and net profit of Digital Bros S.p.A. and the corresponding consolidated figures.

The first column of the balance sheet indicates the number of the relevant note.

The balance sheet format divides items 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 used in the business, equity investments, and receivables due in subsequent years. They also include investment property and deferred tax assets.

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 invested in operating activities in support of the Group's development. The trend in net working capital in relation to business volumes 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 reserves by the shareholders), as adjusted by treasury shares.

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

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 sales
- EBITDA, the difference between the gross profit and total operating costs
- 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, of changes in net working capital, and of cash flows arising from financing or investing activities.

The overall change for the year 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 shareholders' equity has been drawn up in accordance with IAS/IFRS.

Minority interests are not reported because they do not exist.

ACCOUNTING POLICIES

Figures were determined according to the interpretations of the International Accounting Standards in force as of 31 December 2007.

The consolidated financial statements were prepared on the basis of the accounts at 31 December 2007 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 modified as necessary in order to render them IAS/IFRS-compliant.

The accounting policies used for the consolidated half-year accounts at 31 December 2007 are consistent with those used to prepare the consolidated financial statements at 30 June 2007. Changes in the standards and interpretations adopted by the European Union have had no significant effect on the preparation of the interim financial statements.

Below is a summary of the more recent changes effective during the period.

IFRS 7 – Financial instruments: disclosures

This standard, adopted by the EU in January 2006 (Regulation EC No. 108-2006), supersedes IAS 30 (Disclosures in the financial statements of banks and similar financial institutions) and incorporates the disclosure requirements of IAS 32 (Financial instruments: presentation and disclosure), with certain changes and additions. As a result, IAS 32 is now entitled “Financial instruments: presentation.”

Amendments to IAS 1- Presentation of financial statements - capital disclosures

These amendments, adopted by the EU in January 2006 (Regulation EC No. 108-2006), require an entity to make disclosures that will allow users of the financial statements to assess its objectives, policies and processes for managing capital.

IFRIC 8 - Scope of IFRS 2

On 8 September 2006, the European Commission (Regulation EC No. 1329-2006) adopted IFRIC interpretation 8 (Scope of IFRS 2). IFRIC 8 specifies that IFRS 2 (Share-based payment) applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. IFRIC 8 explains that, if the identifiable consideration given appears to be less than the fair value of the equity instruments granted or liability incurred, this situation typically indicates that other consideration has been or will be received. Compliance with this interpretation has had no effect on the financial statements.

IFRIC 9 – Reassessment of embedded derivatives

On 8 September 2006, the European Commission (Regulation EC No. 1329-2006) adopted IFRIC Interpretation 9 (Reassessment of embedded derivatives). This interpretation specifies that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment of the separation is required. Compliance with this interpretation has had no effect on the financial statements.

IFRIC 10 – Interim financial reporting and impairment

On 1 June 2007, the European Commission (Regulation EC No. 610-2007) adopted IFRIC Interpretation 10 (Interim financial reporting and impairment). IFRIC 10 addresses the interaction between IAS 34 on interim financial reporting and the recognition of impairment losses on goodwill (IAS 36) and on certain financial assets (IAS 39), and the effect of this interaction on subsequent interim and annual financial statements. It clarifies the treatment to be applied in the annual financial statements or in subsequent interim accounts for impairment losses recognized in an interim (e.g. quarterly or half-year) report that by the end of the subsequent period are no longer justified. Compliance with this interpretation has had no effect on the financial statements.

New standards and interpretations approved by the EU but not yet in effect

The IFRS effective as of 1 July 2007 or later are briefly described below.

IAS 23 - Borrowing costs

In March 2007, the IASB issued a revised version of IAS 23 - Borrowing costs, effective for annual periods beginning on or after 1 January 2009. The standard now requires the capitalization of borrowing costs that refer to a qualifying asset. A qualifying asset is an asset that takes a substantial period of time to get ready for use or sale. In accordance with the transitional provisions of this standard, the Group will apply it prospectively. Thus, borrowing costs will be capitalized on qualifying assets starting subsequent to 1 January 2009. No change will be made for borrowing costs incurred up to that date that have been charged to profit or loss.

IFRIC 12 - Service concession arrangements

In November 2006, IFRIC 12 was issued, effective for annual periods beginning on or after 1 January 2008. This interpretation applies to service concession operators and explains how to account for the

obligations they undertake and rights they receive in service concession arrangements. No member of the Group is a service concession operator, so IFRIC 12 will have no effect on the financial statements.

IFRIC 13 - Customer Loyalty Programs

In June 2007, IFRIC 13 was issued, effective for annual periods beginning on or after 1 July 2008. This interpretation requires that award credits granted to customers be accounted for as a separate component of the sales transaction(s) in which they were earned, and therefore that part of the fair value of the consideration received be allocated to the credits and amortized until the awards are redeemed. The Group does not expect this interpretation to affect the financial statements, as it has no loyalty programs in course.

IFRIC 14 IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction

In July 2007, IFRIC 14 was issued, effective for annual periods starting on or after 1 July 2008. The interpretation provides guidance on how to assess the limit on the amount of the surplus of a defined benefit plan that can be recognized as an asset in accordance with IAS 19 - employee benefits. The Group does not expect this to affect its financial position or results, as all defined benefit plans are currently in a deficit position.

USE OF ESTIMATES

The preparation of the half-year financial statements and notes requires the company to make certain discretionary valuations. These are 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 results may differ.

In particular, estimates are used to report provisions for doubtful accounts, the writedown of inventories to 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 concern doubtful accounts, inventory writedowns, employee benefits, and revenue adjustments.

Doubtful accounts

To assess the risk of credit default, the Group relies on the opinion of 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.

Inventory writedowns

The Group estimates inventory writedowns on a quarterly basis, in consideration of the rapid obsolescence of its products. Impairment is 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 every quarter by the sales department. The forecasts are also the basic documents used to draw up budgets. Any differences found between the market valuation of a product held in inventory and its historical cost are recognized to profit or loss in the quarter they are discovered.

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. Estimating the liability is still complex, however, due to a small portion of benefits that have remained with Group companies.

To arrive at this estimate, the Group relies on 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 easy 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 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 returns. The estimate is made on a quarterly basis.

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 financial statements of subsidiaries are consolidated as from the date control is assumed until the date control ceases to exist.

The statements used for the consolidation are prepared as of the same reporting date, using identical accounting standards.

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;
- income statement items were translated using the average exchange rate for the period;
- the components of capital and reserves were translated at historical exchange rates, maintaining any stratification of reserves.

The exchange differences arising from this process are recognized directly to shareholders' equity, in a separate translation reserve encompassed by the heading "Other reserves."

Transactions eliminated in the consolidation process

In preparing the consolidated financial statements, all assets, liabilities, and economic and financial transactions existing between Group companies are eliminated, as are unrealized profits and losses on intercompany transactions.

ANALYSIS OF THE BALANCE SHEET

The consolidated balance sheet at 31 December 2007 is reported below, in comparison with the situation at 30 June:

| | EUR/000 | 31 December 2007 | 30 June 2007 | Change | |
|----|--|------------------|-----------------|-----------------|---------------|
| | Non-current assets | | | | |
| 1 | Property, plant and equipment | 3,402 | 3,378 | 24 | 0.7% |
| 2 | Investment property | 455 | 455 | 0 | 0.0% |
| 3 | Intangible assets | 590 | 517 | 73 | 14.1% |
| 4 | Equity investments | 476 | 740 | (264) | -35.7% |
| 5 | Non-current receivables and other assets | 111 | 61 | 50 | 82.0% |
| 6 | Deferred tax assets | 2,588 | 2,695 | (107) | -4.0% |
| | Total non-current assets | 7,622 | 7,846 | (224) | -2.9% |
| | Non-current liabilities | | | | |
| 7 | Employee benefits | (609) | (663) | 54 | -8.1% |
| 8 | Non-current provisions | (234) | (206) | (28) | 13.6% |
| 9 | Other non-current payables and liabilities | 0 | 0 | 0 | 0.0% |
| | Total non-current liabilities | (843) | (869) | 26 | -3.0% |
| | Net working capital | | | | |
| 10 | Inventories | 39,160 | 39,040 | 120 | 0.3% |
| 11 | Trade receivables | 63,480 | 31,157 | 32,323 | n.a. |
| 12 | Tax credits | 1,785 | 2,538 | (753) | -29.7% |
| 13 | Other current assets | 10,721 | 8,412 | 2,309 | 27.4% |
| 14 | Trade payables | (18,851) | (15,570) | (3,281) | 21.1% |
| 15 | Taxes payable | (4,706) | (3,533) | (1,173) | 33.2% |
| 16 | Current provisions | 0 | 0 | 0 | 0.0% |
| 17 | Other current liabilities | (2,206) | (2,689) | 483 | -18.0% |
| | Total net working capital | 89,383 | 59,355 | 30,028 | 50.6% |
| | Capital and reserves | | | | |
| 18 | Share capital | (5,644) | (5,644) | 0 | 0.0% |
| 19 | Reserves | (19,457) | (19,457) | 0 | 0.0% |
| 20 | Treasury shares | 266 | 204 | 62 | 30.4% |
| 21 | Profit (losses) carried forward | (9,842) | (7,493) | (2,349) | 31.3% |
| | Total capital and reserves | (34,677) | (32,390) | (2,287) | 7.1% |
| | Total net assets | 61,485 | 33,942 | 27,543 | 81.1% |
| | Current net debt | | | | |
| 22 | Cash and cash equivalents | 5,740 | 7,080 | (1,340) | -18.9% |
| 23 | Short-term payables to banks | (48,268) | (32,676) | (15,592) | 47.7% |
| 24 | Other current financial liabilities | (6,542) | (3,250) | (3,292) | n.a. |
| | Current net debt | (49,070) | (28,846) | (20,224) | 70.1% |
| | Non-current net debt | | | | |
| 25 | Non-current financial assets | 0 | 0 | 0 | 0.0% |
| 26 | Non-current payables to banks | (10,200) | (2,673) | (7,527) | 281.6% |
| 27 | Other non-current financial liabilities | (2,215) | (2,423) | 208 | -8.6% |
| | Non-current net debt | (12,415) | (5,096) | (7,319) | 143.6% |
| | Total net debt | (61,485) | (33,942) | (27,543) | 81.1% |

As described earlier in a separate section, the video game distribution market shows some strong seasonal patterns. These trends have a substantial impact on the structure of the Group's income statement and balance sheet. The first half is normally when turnover is at its highest for the entire year, as the over-absorption of fixed costs provides a boost to profitability. 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, while for exactly the opposite reason—a decrease in inventories and receivables—net working capital tends to fall off during the second half. The same trend is found for the net financial position, which reaches a high toward the end of the calendar year.

Because of these seasonal patterns, it is deemed preferable to compare the balance sheet figures at 31 December 2007 with those at the same date last year:

ANALYSIS OF THE BALANCE SHEET

Below is a comparison between the consolidated balance sheet at 31 December 2007 and the situation 12 months earlier:

| | EUR/000 | 31 December 2007 | 31 December 2006 | Change | |
|----|--|------------------|------------------|-----------------|---------------|
| | Non-current assets | | | | |
| 1 | Property, plant and equipment | 3,402 | 3,286 | 116 | 3.5% |
| 2 | Investment property | 455 | 455 | 0 | 0.0% |
| 3 | Intangible assets | 590 | 450 | 140 | 31.1% |
| 4 | Equity investments | 476 | 5 | 471 | n.a. |
| 5 | Non-current receivables and other assets | 111 | 53 | 58 | n.a. |
| 6 | Deferred tax assets | 2,588 | 4,537 | (1,949) | -43.0% |
| | Total non-current assets | 7,622 | 8,786 | (1,164) | -13.2% |
| | Non-current liabilities | | | | |
| 7 | Employee benefits | (609) | (879) | 270 | -30.7% |
| 8 | Non-current provisions | (234) | (202) | (32) | 15.8% |
| 9 | Other non-current payables and liabilities | 0 | 0 | 0 | 0.0% |
| | Total non-current liabilities | (843) | (1,081) | 238 | -22.0% |
| | Net working capital | | | | |
| 10 | Inventories | 39,160 | 30,058 | 9,102 | 30.3% |
| 11 | Trade receivables | 63,480 | 53,013 | 10,467 | 19.7% |
| 12 | Tax credits | 1,785 | 1,006 | 779 | 77.4% |
| 13 | Other current assets | 10,721 | 5,892 | 4,829 | 82.0% |
| 14 | Trade payables | (18,851) | (14,548) | (4,303) | 29.6% |
| 15 | Taxes payable | (4,706) | (2,669) | (2,037) | 76.3% |
| 16 | Current provisions | 0 | 0 | 0 | 0.0% |
| 17 | Other current liabilities | (2,206) | (2,191) | (15) | 0.7% |
| | Total net working capital | 89,383 | 70,561 | 18,822 | 26.7% |
| | Capital and reserves | | | | |
| 18 | Share capital | (5,644) | (5,644) | 0 | 0.0% |
| 19 | Reserves | (19,457) | (19,443) | (14) | 0.1% |
| 20 | Treasury shares | 266 | 671 | (405) | -60.4% |
| 21 | Profit (losses) carried forward | (9,842) | (7,129) | (2,713) | 38.1% |
| | Total capital and reserves | (34,677) | (31,545) | (3,132) | 9.9% |
| | Total net assets | 61,485 | 46,721 | 14,764 | 31.6% |
| | Current net debt | | | | |
| 22 | Cash and cash equivalents | 5,740 | 5,371 | 369 | 6.9% |
| 23 | Short-term payables to banks | (48,268) | (39,179) | (9,089) | 23.2% |
| 24 | Other current financial liabilities | (6,542) | (8,093) | 1,551 | -19.2% |
| | Current net debt | (49,070) | (41,901) | (7,169) | 17.1% |
| | Non-current net debt | | | | |
| 25 | Non-current financial assets | 0 | 0 | 0 | 0.0% |
| 26 | Non-current payables to banks | (10,200) | (2,136) | (8,064) | 377.5% |
| 27 | Other non-current financial liabilities | (2,215) | (2,684) | 469 | -17.5% |
| | Non-current net debt | (12,415) | (4,820) | (7,595) | 157.6% |
| | Total net debt | (61,485) | (46,721) | (14,764) | 31.6% |

NON-CURRENT ASSETS

The investment policy during the period was geared mainly towards implementation of the new ERP system based on Microsoft Dynamics Navision. Total investments for the period came to €87 thousand, consisting chiefly of €20 thousand for the ERP system, €5 thousand for the new online gaming platform, €1 thousand for the purchase of office automation machines and €8 thousand for other fixed assets.

1. Property, plant and equipment

These were valued at €3,402 thousand at the close of the half-year, compared with €3,378 thousand at 30 June 2007. Changes during the period were as follows:

| EUR/000 | 30 June 2007 | Additions | Disposals | Depreciation | Use of accumulated depreciation | 31 December 2007 |
|-------------------------------------|--------------|------------|------------|--------------|---------------------------------|------------------|
| Industrial buildings | 2,109 | 37 | 0 | (36) | 0 | 2,110 |
| Land | 600 | 0 | 0 | 0 | 0 | 600 |
| Plant and machinery | 0 | 0 | 0 | 0 | 0 | 0 |
| Industrial and commercial equipment | 309 | 71 | 0 | (91) | 0 | 289 |
| Other assets | 321 | 68 | (4) | (47) | 4 | 343 |
| Leasehold improvements | 39 | 26 | 0 | (5) | 0 | 61 |
| Total | 3,378 | 202 | (4) | (178) | 4 | 3,402 |

Property, plant and equipment, with the exception of land, are depreciated over their individual useful lives.

The heading “Industrial buildings” refers to the warehouse in Trezzano sul Naviglio, which also accounts for the €600 thousand in land. These assets were acquired by the Group under a finance lease and are recognized in the balance sheet in accordance with IAS 17. The financial expenses relating to the lease have not been capitalized. No depreciation is charged on land.

For the other headings, the additions shown for the period primarily reflect the purchase of industrial and commercial equipment (€71 thousand) and other assets, mainly cars (€8 thousand).

Leasehold improvements concern renovation work on the rented buildings where Group companies operate, which is depreciated over the residual term of the lease.

2. Investment property

There were no changes in this item during the year.

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. In accordance with IAS 40, the Group has opted to carry the building at depreciated cost. An adjustment has therefore been made in order to bring its value into line with the figure at 1 July 2004.

The fair value of the investment property, based on figures in the real estate market review (“Osservatorio sul Mercato Immobiliare”) published by the Milan Chamber of Commerce in September 2006, is higher than its cost, so there was no depreciation charge for the year. The building's fair value is €1,045 thousand.

3. Intangible assets

The following table presents movements during the year:

| EUR/000 | 30 June 2007 | Additions | Disposals | Amortization | 31 December 2007 |
|--------------------------------|--------------|------------|-----------|--------------|------------------|
| Concessions and licenses | 491 | 185 | 0 | (99) | 578 |
| Trademarks and similar rights | 15 | 0 | 0 | (3) | 12 |
| Other | 11 | 0 | 0 | (11) | 0 |
| Total intangible assets | 517 | 185 | 0 | (113) | 590 |

Concessions and licenses, worth €578 thousand, refer mainly to deferred charges for the second development phase of the Group's new ERP system based on Microsoft Dynamics Navision. The increase of €185 thousand concerns the development of software during the period.

Trademarks, for €12 thousand, consist of the brands owned by the parent company Digital Bros S.p.A.

4. Equity investments

Equity investments went from €740 thousand at 30 June 2007 to €476 thousand at the end of December, as the investment in RCS DB Games S.p.A. is now carried at equity rather than on a line-by-line basis. The Group's holdings consist of 50% of D3DB S.r.l., a joint venture with Japan's D3 Publisher Inc. (€5 thousand), and 49% of RCS DB Games S.p.A., a joint venture set up with RCS MediaGroup (€471 thousand).

5. Non-current receivables and other assets

This item consists exclusively of security deposits.

6. Deferred tax assets

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, and are estimated using the tax rate expected to be in force at the time of use. This item was essentially stable during the period:

| EUR/000 | 31 December 2007 (A) | 30 June 2007 (B) | 31 December 2006 (C) | Change (A-C) |
|----------------------------------|----------------------|------------------|----------------------|----------------|
| Deferred tax assets | 2,588 | 2,695 | 4,537 | (1,949) |
| Total deferred tax assets | 2,588 | 2,695 | 4,537 | (1,949) |

NON-CURRENT LIABILITIES

7. Employee benefits

This item amounts to €609 thousand, a decrease of €270 thousand for the period. The balance represents the actuarial value of the Company's effective liability to employees, calculated by an independent actuary in accordance with IAS 19.

The decrease takes account of the changes introduced by the Italian Finance Act, with effect from 1 January 2007, as mentioned in the section on accounting policies.

Movements in the provision for employee termination indemnities (TFR) are shown below:

| EUR/000 | 1H07-2008 | 1H06-07 |
|--|------------|------------|
| Provision for employee termination indemnities at start of period | 663 | 803 |
| Withdrawals for termination of service | (72) | (14) |
| Provisions during the half-year | 18 | 122 |
| Actuarial adjustment | 0 | (32) |
| Provision for employee termination indemnities at end of period | 609 | 879 |

The Company has no supplementary pension plans in course.

8. Non-current provisions

These refer wholly to the provision for agents' indemnities, which changed as follows during the period:

| EUR/000 | 31 December 2007 (A) | 30 June 2007 (B) | 31 December 2006 (C) | Change (A-C) |
|-----------------------------------|----------------------|------------------|----------------------|--------------|
| Provision for agents' indemnities | (234) | (206) | (202) | (32) |
| Total | (234) | (206) | (202) | (32) |

The only change concerned provisions of €32 thousand during the period.

9. Other non-current payables and liabilities

At 31 December 2007, as in previous periods, there were no other non-current payables or liabilities.

NET WORKING CAPITAL

Net working capital increased by €18,822 thousand with respect to 31 December 2006 (+26.7%). The trend is explained primarily by a rise of €10,467 thousand in trade receivables, of €9,102 thousand in inventories, and of €4,829 thousand in other current assets. The above was partially offset by a rise in trade payables of €4,303 thousand. This trend should be analyzed in light of the Group's significant increase in sales (+€2,314 thousand) during the first six months with respect to the same period last year.

The increase in inventories (€9,102 thousand) was caused primarily by the growth in revenues and publishers represented on an exclusive basis in Italy, but also by the rise in inventories kept by the International Publishing segment (€1,529 thousand).

An analysis of net working capital in comparison with figures at 30 June 2007 and 31 December 2006 is provided below:

| | EUR/000 | 31 December 2007 (A) | 30 June 2007 (B) | 31 December 2006 (C) | Change (A-C) |
|----|----------------------------------|-------------------------|---------------------|-------------------------|-----------------|
| 10 | Inventories | 39,160 | 39,040 | 30,058 | 9,102 |
| 11 | Trade receivables | 63,480 | 31,157 | 53,013 | 10,467 |
| 12 | Tax credits | 1,785 | 2,538 | 1,006 | 779 |
| 13 | Other current assets | 10,721 | 8,412 | 5,892 | 4,829 |
| 14 | Trade payables | (18,851) | (15,570) | (14,548) | (4,303) |
| 15 | Taxes payable | (4,706) | (3,533) | (2,669) | (2,037) |
| 16 | Current provisions | 0 | 0 | 0 | 0 |
| 17 | Other current liabilities | (2,206) | (2,689) | (2,191) | (15) |
| | Total net working capital | 89,383 | 59,355 | 70,561 | 18,822 |

10. Inventories

Inventories are comprised solely of finished products for resale. Below is the breakdown of inventories by distribution channel:

| EUR/000 | 31 December 2007 (A) | 30 June 2007 (B) | 31 December 2006 (C) | Change (A-C) |
|--------------------------------|-------------------------|---------------------|-------------------------|-----------------|
| Halifax inventories | 20,275 | 26,016 | 18,493 | 1,782 |
| Returns to be received | 2,045 | 1,103 | 1,966 | 79 |
| Halifax inventories | 22,320 | 27,119 | 20,459 | 1,861 |
| DTI inventories | 8,771 | 7,177 | 7,725 | 1,046 |
| Game Entertainment inventories | 1,504 | 559 | 0 | 1,504 |
| Game Service inventories | 3,802 | 1,083 | 365 | 3,437 |
| 505 Games Srl Inventories | 236 | 397 | 511 | (275) |
| Foreign subsidiary inventories | 2,527 | 2,705 | 998 | 1,529 |
| Total inventories | 39,160 | 39,040 | 30,058 | 9,102 |

Inventories rose from €39,040 thousand at 30 June 2007 to €39,160 thousand at 31 December 2007, an increase of €120 thousand. In comparison with 31 December 2006, finished product inventories rose by

€9,102 thousand, due essentially to an increase of €1,861 thousand for Halifax, €1,046 thousand for DTI, and €6,195 thousand for inventories held by subsidiaries.

The change in inventories at Halifax also increased due to an estimate of potential returns to be received, in the amount of €2,045 thousand, in accordance with last year's practice.

The writedown of inventories, reflecting potential losses due to a decrease in the market value of the goods, came to €4,974 thousand (€3,604 thousand for the first half of the previous year). Inventories are shown net of the writedown, which is charged to profit and loss.

11. Trade receivables

Amounts due from customers and for video game licenses showed the following movements for the year:

| EUR/000 | 31 December 2007 (A) | 30 June 2007 (B) | 31 December 2006 (C) | Change (A-C) |
|---------------------------------------|-------------------------|---------------------|-------------------------|-----------------|
| Due from customers: Italy | 45,368 | 14,252 | 43,217 | 2,151 |
| Due from customers: rest of EU | 11,455 | 14,446 | 6,614 | 4,841 |
| Due from customers: rest of the world | 130 | 137 | 511 | (381) |
| Provision for doubtful accounts | (1,374) | (1,124) | (1,084) | (290) |
| Total trade receivables | 55,579 | 27,711 | 49,258 | 6,321 |
| Receivables for video game licenses | 7,383 | 3,303 | 3,428 | 3,955 |
| Receivables for Disney licenses | 517 | 143 | 327 | 190 |
| Total trade receivables | 63,480 | 31,157 | 53,013 | 10,467 |

Receivables due from customers in Italy include advances on receivables factored with and without recourse, amounting to €6,353 thousand at 31 December 2007 (€7,935 thousand at 31 December 2006 and €3,074 thousand at 30 June 2007), in accordance with IAS 39. On that same basis, other current financial liabilities were increased by the same amount.

The total figure for trade receivables at 31 December 2007 (€55,579 thousand) is €27,868 thousand higher than the figure at the close of the financial year (€27,711 thousand). The seasonal nature of the industry makes it more significant to compare trade receivables at 31 December 2007 with those at the same date in 2006. This shows an increase of €6,321 thousand (+12.8%), which is slightly less than the increase in sales (+19.8%) over the 12-month period.

The provision for doubtful accounts reflects potential losses on receivables due to customer default. It increased by €250 thousand with respect to 30 June 2007. The estimated losses are based on an analysis of each customer's degree of solvency.

Receivables for video game licenses and Disney products are advances paid for the acquisition of video game user licenses, the exploitation of which had not yet begun or been completed at the close of the year. The increase of €4,080 thousand in receivables for video game licenses with respect to 30 June 2007 and of €3,955 thousand with respect to 31 December 2006 stems from the acquisition of more licenses during the period than were actually used, in line with the growth of the International Publishing segment.

12. Tax credits

Tax credits consist of advance tax payments and VAT credits owed to the parent company and to subsidiaries. They totaled €1,785 thousand at the close of the period, compared with €2,538 thousand at 30 June 2007.

| EUR/000 | 31 December 2007 (A) | 30 June 2007 (B) | 31 December 2006 (C) | Change (A-C) |
|-----------------------------|-------------------------|---------------------|-------------------------|-----------------|
| Advance income tax payments | 82 | 885 | 101 | (19) |
| VAT credits | 1,703 | 1,653 | 905 | 798 |
| Total tax credits | 1,785 | 2,538 | 1,006 | 779 |

13. Other current assets

Other current assets are comprised of advances paid to suppliers, employees and sales representatives. They totaled €10,721 thousand at the close of the period, compared with €8,412 thousand at 30 June 2007.

Movements during the period were as follows:

| EUR/000 | 31 December 2007 (A) | 30 June 2007 (B) | 31 December 2006 (C) | Change (A-C) |
|---|-------------------------|---------------------|-------------------------|-----------------|
| Insurance refunds to be received | 0 | 8 | 3 | (3) |
| Advances paid to suppliers | 7,511 | 7,674 | 4,221 | 3,290 |
| Advances paid to employees | 96 | 96 | 101 | (5) |
| Advances paid to sales representatives | 1,013 | 568 | 588 | 425 |
| Other receivables | 2,101 | 66 | 979 | 1,122 |
| Total other current assets | 10,721 | 8,412 | 5,892 | 4,829 |

At €10,721 thousand, other current assets increased by €2,309 thousand with respect to 30 June 2007 and by €4,829 thousand with respect to 31 December 2006, due primarily to the rise in advances paid to suppliers, employees and sales representatives. More specifically, during the half-year, the Group advanced €5,280 thousand in production costs for video games in the International Publishing segment

that will reach store shelves in the spring, including about €3,260 thousand for the upcoming release of the game “Cooking Mama 2.”

14. Trade payables

Trade payables went from €15,570 thousand at 30 June 2007 to €18,851 thousand at 31 December, an increase of €3,281 thousand, and consist mainly of amounts due to publishers for the purchase of finished products (split equally between Italian and international suppliers).

15. Taxes payable

These rose from €3,533 thousand at 30 June 2007 to €4,706 thousand at the end of December, an increase of €1,173 thousand. In detail:

| EUR/000 | 31 December 2007 (A) | 30 June 2007 (B) | 31 December 2006 (C) | Change (A-C) |
|----------------------------|-------------------------|---------------------|-------------------------|-----------------|
| Income taxes | (2,545) | (1,421) | (2,334) | (211) |
| VAT | (1,817) | (1,880) | 0 | (1,817) |
| Other taxes due | (344) | (232) | (335) | (9) |
| Total taxes payable | (4,706) | (3,533) | (2,669) | (2,037) |

The difference with respect to 31 December 2006 (€2,037 thousand) is due primarily to the VAT due by foreign subsidiaries, which do not pay VAT advances as Italian companies do.

16. Current provisions

As in previous periods, there were no current provisions at 31 December 2007.

17. Other current liabilities

At €2,206 thousand, as detailed below, this item showed no significant changes with respect to 30 June 2007 and 31 December 2006:

| EUR/000 | 31 December 2007 (A) | 30 June 2007 (B) | 31 December 2006 (C) | Change (A-C) |
|---|-------------------------|---------------------|-------------------------|-----------------|
| Due to social security institutions | (344) | (486) | (326) | (18) |
| Due to employees | (879) | (1,264) | (858) | (21) |
| Due to contract workers | (34) | (52) | (63) | 29 |
| Commissions due to sales representatives | (919) | (845) | (808) | (111) |
| Other payables | (30) | (42) | (136) | 106 |
| Total other current liabilities | (2,206) | (2,689) | (2,191) | (15) |

CAPITAL AND RESERVES

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

| EUR/000 | Share capital (A) | Share premium reserve | Legal reserve | IAS transition reserve | Other reserves | 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 30 June 2007 | 5,644 | 16,954 | 1,129 | 1,367 | 7 | 19,457 | (204) | 3,663 | 3,830 | 7,493 | 32,390 |
| Allocation of net profit | 0 | | | | | 0 | 0 | 3,830 | (3,830) | 0 | 0 |
| Dividend payments | 0 | | | | | 0 | 0 | (1,128) | | (1,128) | (1,128) |
| Purchase of treasury shares | 0 | | | | | 0 | (62) | | | 0 | (62) |
| Other changes | 0 | | | | | 0 | 0 | (15) | | (15) | (15) |
| Net profit for the period | 0 | | | | | 0 | 0 | | 3,492 | 3,492 | 3,492 |
| Total at 31 December 2007 | 5,644 | 16,954 | 1,129 | 1,367 | 7 | 19,457 | (266) | 6,350 | 3,492 | 9,842 | 34,677 |

The share capital is divided into 14,110,838 ordinary shares with par value €0.4 each, for a total of €5,644,334.80. There are no other types of shares outstanding.

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

On 14 December 2007 Digital Bros S.p.A. made a dividend payment of €1,128 thousand for a unit dividend of €0.08, approved by the shareholders' meeting of 30 October 2007.

During the period ended 31 December 2007, the company purchased treasury shares in the amount of €62 thousand.

NET DEBT

In line with the increase in net working capital (€30,028 thousand), net debt grew by €27,543 thousand with respect to 30 June.

The trend is explained by a rise in current and non-current payables to banks. Since 31 December 2006, net debt has grown by €14,764 thousand, due to the investments made during the period for advances to suppliers (€5,280 thousand, including €3,260 thousand for the upcoming release of the game “Cooking Mama 2”). For a more in-depth analysis of cash flow, see the consolidated cash flow statement attached to this report.

The breakdown of consolidated net debt with comparative figures at 30 June 2007 and 31 December 2006 is as follows:

| | EUR/000 | 31 December 2007 (A) | 30 June 2007 (B) | 31 December 2006 (C) | Change (A-C) |
|----|---|----------------------|------------------|----------------------|-----------------|
| 22 | Cash and cash equivalents | 5,740 | 7,080 | 5,371 | 369 |
| 23 | Short-term payables to banks | (48,268) | (32,676) | (39,179) | (9,089) |
| 24 | Other current financial liabilities | (6,542) | (3,250) | (8,093) | 1,551 |
| | Current net debt | (49,070) | (28,846) | (41,901) | (7,169) |
| 25 | Non-current financial assets | 0 | 0 | 0 | 0 |
| 26 | Non-current payables to banks | (10,200) | (2,673) | (2,136) | (8,064) |
| 27 | Other non-current financial liabilities | (2,215) | (2,423) | (2,684) | 469 |
| | Non-current net debt | (12,415) | (5,096) | (4,820) | (7,595) |
| | Total net debt | (61,485) | (33,942) | (46,721) | (14,764) |

Current net debt

Current net debt is made up as follows:

| | EUR/000 | 31 December 2007 (A) | 30 June 2007 (B) | 31 December 2006 (C) | Change (A-C) |
|----|-------------------------------------|----------------------|------------------|----------------------|----------------|
| 22 | Cash and cash equivalents | 5,740 | 7,080 | 5,371 | 369 |
| 23 | Short-term payables to banks | (48,268) | (32,676) | (39,179) | (9,089) |
| 24 | Other current financial liabilities | (6,542) | (3,250) | (8,093) | 1,551 |
| | Total current net debt | (49,070) | (28,846) | (41,901) | (7,169) |

22. Cash and cash equivalents

Cash and cash equivalents at 31 December 2007 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 (€267 thousand).

| EUR/000 | 31 December 2007 (A) | 30 June 2007 (B) | 31 December 2006 (C) | Change (A-C) |
|--|-------------------------|---------------------|-------------------------|-----------------|
| Cash on hand and bank deposits | 3,310 | 4,689 | 3,034 | 276 |
| Mutual fund units | 2,163 | 2,129 | 2084 | 79 |
| Quadrante policy (Banca Toscana) | 267 | 262 | 253 | 14 |
| Total cash and cash equivalents | 5,740 | 7,080 | 5,371 | 369 |

Cash and cash equivalents at 31 December 2007 amount to €5,740 thousand, a decrease of €1,340 thousand with respect to 30 June due to a reduction 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 derivatives and bank loans due within 12 months. The amount due for short-term derivatives at 31 December 2007 is €400 thousand. The increase in short-term payables to banks with respect to 30 June 2007 is explained by a rise in import-export financing, advances on invoices and advances subject to collection. Account overdrafts decreased significantly with respect to 30 June.

| EUR/000 | 31 December 2007 (A) | 30 June 2007 (B) | 31 December 2006 (C) | Change (A-C) |
|--|-------------------------|---------------------|-------------------------|-----------------|
| Account overdrafts | (486) | (2,314) | (4,592) | 4,106 |
| Import-export financing | (27,564) | (18,709) | (18,838) | (8,726) |
| Advances on invoices and subject to collection | (17,264) | (10,170) | (15,097) | (2,167) |
| Loan installments due within 12 months | (2,554) | (1,083) | (252) | (2,302) |
| Fair value recognition of derivatives - due within 12 months | (400) | (400) | (400) | 0 |
| Total short-term payables to banks | (48,268) | (32,676) | (39,179) | (9,089) |

Loan installments due within 12 months are shown below:

| EUR/000 | 31 December 2007 (A) | 30 June 2007 (B) | 31 December 2006 (C) | Change (A-C) |
|--|-------------------------|---------------------|-------------------------|-----------------|
| To Banca Intesa San Paolo | (703) | (817) | (145) | (558) |
| To UniCredit Banca | (268) | (266) | (107) | (161) |
| To Barclays Bank | (1,583) | 0 | 0 | (1,583) |
| Total short-term loans and borrowings | (2,554) | (1,083) | (252) | (2,302) |

The increase in loan installments due within 12 months refers to the short-term portion of a new €5 million loan taken out from Barclays Bank on 19 December 2007 to finance the Group's development. The loan matures on 21 December 2010.

24. Other current financial liabilities

Other current financial liabilities consist of the portion of finance leases held with Intesa Leasing and SanPaolo Leasing falling due within 12 months, recognized in the amount of €189 thousand in accordance

with IAS 17. The leasing agreements currently in force concern the warehouse in Trezzano sul Naviglio as well as office automation equipment and cars. The item also includes advances on trade receivables factored with and without recourse, totaling €6,353 thousand in keeping with IAS 39.

Non-current net debt

Non-current net debt is made up as follows:

| | EUR/000 | 31 December 2007 (A) | 30 June 2007 (B) | 31 December 2006 (C) | Change (A-C) |
|----|---|-------------------------|---------------------|-------------------------|-----------------|
| 26 | Non-current payables to banks | (10,200) | (2,673) | (2,136) | (8,064) |
| 27 | Other non-current financial liabilities | (2,215) | (2,423) | (2,684) | 469 |
| | Total non-current net debt | (12,415) | (5,096) | (4,820) | (7,595) |

26. Non-current payables to banks

Non-current payables to banks consist of the long-term portion of loans being paid in installments, for a total of €10,200 thousand.

At 31 December 2007 the Group had the following loans outstanding:

- a €1 million loan granted by Banca Intesa San Paolo on 14 March 2005, with a term of 24 months from the date of disbursement, charging annual interest equal to the three-month Euribor plus a spread of 1.75 points. Installments fall due every quarter, with the last payment scheduled for November 2009;
- a €1 million loan granted by UniCredit Banca d'Impresa on 15 June 2005 and maturing on 30 September 2010, requiring no principal to be reimbursed until 31 December 2006. Until then, at the end of each calendar quarter the Group made a payment consisting of accrued interest only. That interest was charged at an annual rate of the three-month Euribor plus 1.5 points. In March 2007 the Group began to make equal payments against the principal at the end of every quarter. The interest rate will be the same as during the pre-reimbursement period. This loan is also secured by an interest rate swap taken out from the same bank on 15 June 2005, with a term of 5.25 years and notional principal of €1,000K. Under the terms of the IRS, for the first year the Group collects the three-month Euribor while paying fixed interest of 2.30%; for the second year it will collect the three-month Euribor and pay fixed interest of 2.75%; and for the final three years and three months it will collect the three-month Euribor and pay fixed interest of 3.30%. The IRS is settled upon payment of the loan installments;
- a five-year loan taken out on 2 February 2007 by 505 Games S.r.l. from Banca Intesa San Paolo. The €2 million borrowed will 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 will be paid in 20 installments, at the end of every quarter, on a constant amortization basis;

- a loan of €2,050 thousand granted by UniCredit Banca to 505 Games S.r.l. on 18 September 2007 to finance the company's development, due on 18 March 2009. The loan charges variable interest starting at 6.80% per year, calculated as the three-month Euribor times the coefficient 365/360 (rounded up to the nearest 0.50%) valid on 18 September 2007, plus a 2-point spread for the year. Interest is paid quarterly, while the principal will be repaid in a lump sum on 18 March 2009 or before (with no penalties applying);
- a loan of €400 thousand granted by UniCredit Banca to 505 Games S.r.l. on 23 November 2007 to finance the company's development, due on 23 May 2009. The loan charges interest at 6.92% per year, calculated as the three-month Euribor times the coefficient 365/360 (rounded up to the nearest 0.50%) valid on 23 November 2007. Interest is paid quarterly, while the principal will be repaid in a lump sum on 23 May 2009 or before (with no penalties applying);
- a loan of €2.150 thousand granted by UniCredit Banca to 505 Games S.r.l. on 14 December 2007, maturing on 14 June 2009. The loan charges interest at 7.217% per year, calculated as the three-month Euribor times the coefficient 365/360 (rounded up to the nearest 0.50%) valid on 14 December 2007. Interest is paid quarterly, while the principal will be repaid in a lump sum, at maturity or before (with no penalties applying);
- a loan of €5 million granted by Barclays Bank to Digital Bros S.p.A. on 19 December 2007. The interest rate is variable, amounting to the three-month Euribor plus a spread of 0.75%. The loan will be repaid in 12 quarterly installments, from 21 March 2008 until 21 December 2010.

27. Other non-current financial liabilities

Other non-current financial liabilities refer to the fair-value recognition of non-hedge derivatives and the finance lease for the warehouse in Trezzano sul Naviglio.

In detail:

| EUR/000 | 31 December 2007 (A) | 30 June 2007 (B) | 31 December 2006 (C) | Change (A-C) |
|--|-------------------------|---------------------|-------------------------|-----------------|
| Leasing installments falling due beyond 12 months | (1,835) | (1,875) | (1,895) | 60 |
| Fair value recognition of derivatives - beyond 12 months | (380) | (548) | (789) | 409 |
| Total non-current financial liabilities | (2,215) | (2,423) | (2,684) | 469 |

Leasing installments falling due beyond 12 months pertain to the leasing contract 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.

The nominal annual interest rate is 3.87%. Payments falling due after the building is delivered are indexed to the monthly average of the three-month Euribor. 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. The installments falling due within 12 months total €122 thousand; those with a maturity of one to five years amount to €691 thousand, and those due beyond five years total €99 thousand. To hedge the risk of rising interest rates during the term of the lease, the Group took out an interest rate swap with Banca Intesa San Paolo on 29 November 2005 with the same maturity as the leasing contract. 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.

Non-hedge derivatives are recognized at fair value. The Group uses derivatives to minimize interest rate and exchange rate risks. 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 derivatives outstanding at 31 December 2007 to which hedge accounting does not apply are as follows:

- an interest rate swap taken out on 27 December 2004 with Banca Intesa San Paolo, maturing on 28 December 2009 with a notional principal amount of €20 million. Under this arrangement the Group pays quarterly interest corresponding to the three-month Euribor ACT/360 +2% and collects a variable three-month Euribor. A ceiling of 7% applies;
- an interest rate swap taken out on 21 July 2003 with Banca Intesa San Paolo, maturing on 21 July 2008 with a notional principal amount of €3 million. With this instrument, the Group pays the maximum quarterly interest rate (2 x 3M Euribor in arrears - 2.25%) with a ceiling of 5.50% per quarter, and collects the variable three-month Euribor.

REVENUES BY GEOGRAPHICAL SEGMENT

The Group has chosen to use business segments as its primary segment reporting format, and geographical segments, considered to be less significant, as its secondary reporting format.

Gross consolidated revenues outside Italy increased by €18,367 thousand, from €5,961 thousand in the first half of 2006-2007 to €24,328 thousand for the period under review.

| EUR/000 | 1H 2007-2008 | 1H 2006-2007 | Change | |
|------------------------------------|---------------|---------------|---------------|--------------|
| Italy | 73,495 | 75,723 | (2,228) | -2.9% |
| Elsewhere | 24,328 | 5,961 | 18,367 | n.a. |
| Total consolidated revenues | 97,823 | 81,684 | 16,139 | 19.8% |

As shown in the table below, most sales outside Italy were generated by the International Publishing segment, which distributes and markets video games on an international scale and on which the Group is focusing its resources.

Foreign revenues are broken down below by business segment:

| EUR/000 | 1H 2007-2008 | 1H 2006-2007 | Change | |
|-------------------------------------|---------------|--------------|---------------|-------------|
| New Media | 106 | 250 | (144) | -57.6% |
| International Publishing | 24,222 | 5,711 | 18,511 | n.a. |
| Total gross foreign revenues | 24,328 | 5,961 | 18,367 | n.a. |

The decrease in foreign revenues by the New Media segment stems from the restructuring process, which involves the launch of new interactive entertainment operations for which sales during the year were not yet substantial, in line with strategic plans.

PERFORMANCE BY BUSINESS SEGMENTS

The Group's business segments are as follows:

- Distribution;
- International Publishing;
- New Media;
- Newsstands;
- Holding.

Below are the details of revenues by business segment for the period ended 31 December 2007, with comparative figures for the previous year:

| EUR/000 | Gross revenues | | | | Net revenues | | | |
|-----------------------------|-----------------|-----------------|---------------|--------------|-----------------|-----------------|---------------|--------------|
| | 1H 2007-2008 | 1H 2006-2007 | Change | | 1H 2007-2008 | 1H 2006-2007 | Change | |
| Distribution | 72,401 | 74,130 | (1,729) | -2.3% | 65,512 | 68,555 | (3,043) | -4.4% |
| Newsstands | 1,036 | 1,593 | (557) | 34.9% | 974 | 1,593 | (619) | 38.9% |
| New Media | 164 | 250 | (86) | -34.3% | 164 | 250 | (86) | -34.3% |
| International Publishing | 24,222 | 5,711 | 18,511 | 324.1% | 20,854 | 4,792 | 16,062 | 335.2% |
| Total gross revenues | 97,823 | 81,684 | 16,139 | 19.8% | 87,504 | 75,190 | 12,314 | 16.4% |

Profit margins for the segments were as follows:

| | Consolidated figures in EUR/000 | Distribution | Newsstands | New Media | Publishing | Holding | Total |
|-----------|--|-----------------|--------------|----------------|-----------------|--------------|-----------------|
| 1 | Gross revenues | 72,401 | 1,036 | 164 | 24,222 | 0 | 97,823 |
| 2 | Revenue adjustments | (6,889) | (62) | 0 | (3,368) | 0 | (10,319) |
| 3 | Total net revenues | 65,512 | 974 | 164 | 20,854 | 0 | 87,504 |
| 4 | Purchase of goods for resale | (50,027) | (1,070) | (17) | (9,580) | (0) | (60,693) |
| 5 | Purchase of services for resale | 0 | (126) | 0 | 0 | 0 | (126) |
| 6 | Royalties | (189) | (294) | (20) | (2,816) | 0 | (3,319) |
| 7 | Change in inventories of finished products | (486) | 946 | 0 | (339) | 0 | 120 |
| 8 | Total cost of goods sold | (50,703) | (544) | (36) | (12,735) | (0) | (64,018) |
| 9 | Gross profit (3+8) | 14,809 | 431 | 128 | 8,119 | (0) | 23,486 |
| 10 | Other income | 3 | 0 | 0 | 0 | 0 | 3 |
| 11 | Cost of services | (3,925) | (403) | (662) | (2,837) | (49) | (7,875) |
| 12 | Rent and leasing | (140) | 0 | (12) | (40) | (4) | (195) |
| 13 | Payroll costs | (3,431) | 0 | (639) | (909) | (586) | (5,565) |
| 14 | Other operating expenses | (838) | (2) | (21) | (121) | (247) | (1,230) |
| 15 | Total operating expenses | (8,333) | (405) | (1,334) | (3,907) | (886) | (14,865) |
| 16 | EBITDA (9+10+15) | 6,479 | 26 | (1,206) | 4,211 | (886) | 8,625 |
| 17 | Depreciation and amortization | (149) | (2) | (17) | (38) | (85) | (290) |
| 18 | Provisions | 0 | 0 | 0 | 0 | 0 | 0 |
| 19 | Asset impairment charge | (250) | 0 | (264) | 0 | 0 | (514) |
| 20 | Impairment reversal | 0 | 0 | 0 | 0 | 0 | 0 |
| 21 | Total depreciation, amortization and impairment | (399) | (2) | (281) | (38) | (85) | (804) |
| 22 | EBIT (16+21) | 6,081 | 24 | (1,487) | 4,173 | (971) | 7,820 |

Distribution

Distribution is the Group's core business, and until last year was its main source of earnings. It 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.

Two divisions of the parent company, Halifax and DTI, divide these responsibilities by type of publisher and distribution channel:

- 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 a key account structure for major chains;
- DTI (Distribuzione Trade Italia), using the small retail channel only, distributes games produced by publishers with their own organization in Italy, such as: Electronic Arts, Activision Italia, Vivendi Universal Games and THQ Italia.

The subsidiary 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).

Key results

| | EUR/000 | Distribution | | | | | |
|-----------|--|-----------------|---------------|-----------------|---------------|----------------|---------------|
| | | 1H 2007-2008 | | 1H 2006-2007 | | Change | |
| 1 | Gross revenues | 72,401 | 110.5% | 74,130 | 108.1% | (1,729) | -2.3% |
| 2 | Revenue adjustments | (6,889) | -10.5% | (5,575) | -8.1% | (1,314) | 23.6% |
| 3 | Total net revenues | 65,512 | 100.0% | 68,555 | 100.0% | (3,043) | -4.4% |
| 4 | Purchase of goods for resale | (50,027) | -76.4% | (54,202) | -79.1% | 4,175 | -7.7% |
| 5 | Purchase of services for resale | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 6 | Royalties | (189) | -0.3% | (588) | -0.9% | 399 | -67.9% |
| 7 | Change in inventories of finished products | (486) | -0.7% | 2,075 | 3.0% | (2,562) | -123.4% |
| 8 | Total cost of goods sold | (50,703) | -77.4% | (52,715) | -76.9% | 2,012 | -3.8% |
| 9 | Gross profit | 14,809 | 22.6% | 15,840 | 23.1% | (1,031) | 6.5% |
| 10 | Other income | 3 | 0.0% | 9 | 0.0% | (6) | -66.6% |
| 11 | Cost of services | (3,925) | -6.0% | (3,804) | -5.5% | (121) | 3.2% |
| 12 | Rent and leasing | (140) | -0.2% | (159) | -0.2% | 19 | -12.0% |
| 13 | Payroll costs | (3,431) | -5.2% | (3,324) | -4.8% | (107) | 3.2% |
| 14 | Other operating expenses | (838) | -1.3% | (970) | -1.4% | 132 | -13.6% |
| 15 | Total operating expenses | (8,333) | -12.7% | (8,257) | -12.0% | (76) | 0.9% |
| 16 | EBITDA | 6,479 | 9.9% | 7,592 | 11.1% | (1,113) | -14.7% |
| 17 | Depreciation and amortization | (149) | -0.2% | (271) | -0.4% | 122 | -45.1% |
| 18 | Provisions | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 19 | Asset impairment charge | (250) | -0.4% | (97) | -0.1% | (153) | 0.0% |
| 20 | Impairment reversal | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 21 | Total depreciation, amortization and impairment | (399) | -0.6% | (368) | -0.5% | (31) | 8.4% |
| 22 | EBIT | 6,081 | 9.3% | 7,224 | 10.5% | (1,144) | -15.8% |

In the Distribution segment the Group maintained a consistent turnover, with gross revenues of €72,401 thousand compared with €74,130 thousand the previous year (-2.3%). The decline was smaller than expected by management, which had forecast a year-on-year decrease of 13%.

Net revenues were lower as a result, falling from €68,555 thousand to €65,512 thousand (-4.4%).

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

| EUR/000 | 1H 2007-2008 | 1H 2006-2007 | Change | |
|---|---------------|---------------|----------------|--------------|
| Distribution of video games for consoles | 67,215 | 66,939 | 276 | 0.4% |
| Distribution of video games for PC/CD-ROM | 5,176 | 7,224 | (2,048) | -28.4% |
| Distribution of other products and services | 279 | 335 | (56) | -16.7% |
| Financial discounts | (269) | (368) | 99 | -26.9% |
| Total gross revenues | 72,401 | 74,130 | (1,729) | -2.3% |

Gross revenues from video game distribution dipped by €1,729 thousand, from €74,130 thousand in the first half of 2006-2007 to €72,401 thousand, due chiefly to a decline in the PC/CD-ROM category.

Specifically, sales of games for PCs/CD-ROMs were down by 28.4%, from €7,224 thousand for the period to 31 December 2006 to €5,176 thousand this year. Conversely, the increase in sales of console games (which in any case amount to 92.8% of gross revenues for the segment and 68.7% of consolidated gross turnover) came to €76 thousand.

Over the past year or so, several games have been launched that are perfect for mass consumption, in particular for the Nintendo DS console. These include Brain Trainer, a sort of digital puzzle book; various animal training games involving dogs, cats and even dolphins; cooking simulation games; and more. Because they are simple and user-friendly, this kind of game has strongly influenced the growth rates for the video game market in the past 12 months.

Figures for the first half of 2007-2008 reflect two factors: a decline in the average unit prices of games for the mature console (Sony Playstation 2), whose volumes however remained high, and the fact that the new console (Sony Playstation 3) is not yet present in enough homes to make up the difference.

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 | 1H 2007-2008 | | 1H 2006-2007 | | Change | |
|--|------------------|---------------|------------------|---------------|--------------|-------------|
| | Units | Revenues | Units | Revenues | Units | Revenues |
| Nintendo Gameboy Advance | 75,863 | 1,074 | 240,596 | 5,182 | -68.5% | -79.3% |
| Sony Playstation 2 | 1,184,699 | 31,415 | 1,448,346 | 43,819 | -18.2% | -28.3% |
| Sony Playstation 3 ⁽¹⁾ | 185,976 | 9,299 | n.a | n.a | n.a | n.a |
| Nintendo Wii | 47,092 | 1,864 | n.a | n.a | n.a | n.a |
| Microsoft Xbox 360 | 135,422 | 5,381 | 114,028 | 5,443 | 18.8% | -1.1% |
| Nintendo DS | 499,716 | 13,050 | 198,534 | 4,932 | 151.7% | 164.6% |
| Sony PSP | 195,341 | 5,071 | 194,408 | 6,264 | 0.5% | -19.0% |
| Other consoles | 11,018 | 61 | 283,944 | 1,299 | -96.1% | -95.3% |
| Total revenues from distribution for consoles | 2,335,127 | 67.215 | 2,479,856 | 66,939 | -5.8% | 0.4% |

(1) launched in March 2007

Revenue growth for the console market was influenced by two contrasting trends:

- a decrease in products sold for consoles long on the market, which was partially offset by an increase of 534,000 units for new-generation consoles such as Nintendo DS, Sony Playstation 3, and Nintendo Wii;
- a 6.6% rise in average unit selling prices, as shown in the table below, with games for new-generation consoles costing the most (an average of €50.00 for Sony Playstation 3).

Two new consoles have been launched in the past 12 months: the Nintendo Wii (December 2006), with a controller designed for highly interactive play, and the Sony Playstation 3 (March 2007) which will gradually replace Sony's PS2. However, because the PS3 is not fully backward compatible (not all Playstation 2 games can be played on it) and because so many Italian households already have the PS2, the life cycle of the older console and its games has been extended.

The trend in average video game prices is shown below:

| EUR/000 | 1H 2007-2008 | 1H 2006-2007 | Change |
|--------------------------|---------------------|---------------------|---------------|
| Nintendo Gameboy Advance | 14.2 | 21.5 | -34.3% |
| Sony Playstation 2 | 26.5 | 30.3 | -12.4% |
| Sony Playstation 3 | 50.0 | n.a. | n.a. |
| Nintendo Wii | 39.6 | n.a. | n.a. |
| Microsoft Xbox 360 | 39.7 | 47.7 | -16.8% |
| Nintendo DS | 26.1 | 24.8 | 5.1% |
| Sony PSP | 26.0 | 32.2 | -19.4% |
| Other consoles | 5.6 | 4.6 | 22.0% |
| Average price | 28.8 | 27.0 | 6.6% |

Price trends are typical of the video games market. Games for new-generation consoles (Sony Playstation 3, Nintendo Wii and Microsoft Xbox 360) are priced above average, while games for older ones cost less, and their prices will 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 (consider the Nintendo Gameboy Advance, successfully replaced by Nintendo DS, and the Microsoft Xbox, now replaced by the Xbox 360).

Product obsolescence is typical of the media industry in general, with no exception for video games, and during the transition from an old-generation console to a new one it accelerates. The Group has thus increased its inventory writedowns to €4,974 thousand for the half-year, affecting the gross profit and other margins.

The gross profit fell 6.5%, from €5,840 thousand to €4,809 thousand. This was caused exclusively by the rise of €1,370 thousand in inventory writedowns, which came to €3,604 thousand for the first half of 2006-2007 and €4,974K this year. The other profit margins were affected accordingly: EBITDA was down by €1,113 thousand and EBIT by €1,144 thousand, as there were no noteworthy changes in operating expenses or in depreciation, amortization and provisions.

New Media

This segment covers all interactive entertainment products distributed over the new media, such as digital TV, the Web, cell phones, e-commerce, d-commerce and IP TV.

Under the Group's new organization, since 1 January 2007 the online gaming business has been operated by the subsidiary Game Media Networks S.r.l. The business consists of the exclusive sale of the games "Legend of Mir" and "Myth of Soma" in Europe.

The new multiplayer gaming portal, www.gametribe.com, has been online since September 2007. At the moment, players can access two Kong Kong go-kart simulation games, and the multiplayer soccer game "Kicks Online."

By May 2008, the Group's European portal should have a total of five multiplayer games offered on an exclusive basis in Europe. Unlike previous offerings, these games do not require subscription fees, but charge only for the virtual items that players can buy from the online store to enhance their characters. To date, more than 100,000 users have registered.

Of the new initiatives in this segment, in March 2007 the Digital Bros Group and the RCS Group launched a joint venture in the online entertainment business. Called RCS DB Games S.p.A., the new company is owned 51% by RCS MediaGroup and 49% by Game Media Networks S.r.l. (a wholly-owned subsidiary of Digital Bros S.p.A.). With an initial investment of €735 thousand from the Digital Bros Group, its purpose is to manage and develop an online portal for single- and multi-player gaming.

In May 2007 the Group incorporated Game Media Networks Ltd. in the United Kingdom, and in July it founded Game Media Networks S.a.r.l. in France. The two companies were not active during the period; their purpose is to provide commercial, promotional and media relations support in those countries for the Group's European online gaming portal, www.gametribe.com.

Key results

| | EUR/000 | New Media | | | | | |
|-----------|--|----------------|---------------|--------------|----------------|--------------|----------------|
| | | 1H 2007-2008 | | 1H 2006-2007 | | Change | |
| 1 | Gross revenues | 164 | 100.0% | 250 | 100.0% | (86) | -34.4% |
| 2 | Revenue adjustments | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 3 | Total net revenues | 164 | 100.0% | 250 | 100.0% | (86) | -34.4% |
| 4 | Purchase of goods for resale | (17) | -10.2% | (11) | -4.4% | (6) | 100.0% |
| 5 | Purchase of services for resale | 0 | 0.0% | (405) | n.a. | 405 | -100.0% |
| 6 | Royalties | (20) | -11.9% | (58) | -23.3% | 38 | -66.4% |
| 7 | Change in inventories of finished products | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 8 | Total cost of goods sold | (36) | -22.1% | (474) | -189.3% | 438 | -92.4% |
| 9 | Gross profit | 128 | 77.9% | (224) | -89.3% | 352 | -157.2% |
| 10 | Other income | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 11 | Cost of services | (662) | n.a. | (248) | -99.2% | (414) | 166.8% |
| 12 | Rent and leasing | (12) | -7.2% | (12) | -4.7% | (0) | 0.8% |
| 13 | Payroll costs | (639) | n.a. | (141) | -56.3% | (498) | 353.7% |
| 14 | Other operating expenses | (21) | -12.9% | (12) | -4.8% | (9) | 77.2% |
| 15 | Total operating expenses | (1,334) | n.a. | (413) | -164.9% | (921) | 223.3% |
| 16 | EBITDA | (1,206) | n.a. | (636) | -254.1% | (570) | 89.6% |
| 17 | Depreciation and amortization | (17) | -10.1% | (12) | -4.7% | (5) | 39.7% |
| 18 | Provisions | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 19 | Asset impairment charge | (264) | n.a. | 0 | 0.0% | (264) | 0.0% |
| 20 | Impairment reversal | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 21 | Total depreciation, amortization and impairment | (281) | n.a. | (12) | -4.7% | (269) | n.a. |
| 22 | EBIT | (1,487) | n.a. | (648) | -258.8% | (839) | 129.5% |

Most revenues were earned through subscriptions to online games (€106 thousand) and the sale of digital entertainment content (€6 thousand).

Revenues from “Legend of Mir” and “Myth of Soma” subscriptions fell from €200 thousand to €106 thousand, and the titles will soon be replaced by a new generation of games accessed from the portal for the European market, www.gametribe.com. Preparation of the portal will be completed in May 2008.

At €1,334 thousand, operating expenses increased by €21 thousand, and were influenced by the contractual expense of the online connections used by players to access the games, which was once in proportion to revenues but is now too high with respect to the numbers of players attracted. The offer of more content through the portal should attract significant numbers of new players, thereby reducing the influence of this expense on the overall income statement structure. Additional investments were incurred during the half-year with a view to completing the portal.

The combination of these factors led to negative EBITDA of €1,206 thousand, compared with a negative €636 thousand for the period ended 31 December 2006.

Depreciation, amortization and writedowns of €281 thousand showed an increase of €69 thousand, including a provision of €64K for the impairment of RCS DB Games S.p.A. as a result of its losses at 31 December 2007.

EBIT performed consistently with EBITDA, moving from a negative €648 thousand in the first half of last year to a negative €1,487 thousand.

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.

For market reasons and in light of the segment's fast growth, since the second quarter of 2006-2007 International Publishing operations have been handled by the subsidiary 505 Games S.r.l. (following a name change from DB International S.r.l.), by the newly incorporated Digital Bros France S.a.r.l. and 505 Games Ltd. operating respectively in France and the United Kingdom, and by D3DB S.r.l., a 50-50 joint venture with Japan's D3 Publisher Inc. set up for the exclusive distribution in PAL system countries (Europe, Australia and South Africa) of games in the lower price range.

Key results

| EUR/000 | | International Publishing | | | | | |
|-----------|--|--------------------------|---------------|----------------|---------------|-----------------|-------------|
| | | 1H 2007-2008 | | 1H 2006-2007 | | Change | |
| 1 | Gross revenues | 24,222 | 116.2% | 5,711 | 119.2% | 18,511 | n.a. |
| 2 | Revenue adjustments | (3,368) | -16.2% | (919) | -19.2% | (2,449) | n.a. |
| 3 | Total net revenues | 20,854 | 100.0% | 4,792 | 100.0% | 16,062 | n.a. |
| 4 | Purchase of goods for resale | (9,580) | -45.9% | (2,538) | -53.0% | (7,042) | n.a. |
| 5 | Purchase of services for resale | 0 | 0.0% | (48) | -1.0% | 48 | -100.0% |
| 6 | Royalties | (2,816) | -13.5% | (1,611) | -33.6% | (1,205) | 74.8% |
| 7 | Change in inventories of finished products | (339) | -1.6% | 1,530 | 31.9% | (1,869) | n.a. |
| 8 | Total cost of goods sold | (12,735) | -61.1% | (2,667) | -55.6% | (10,068) | n.a. |
| 9 | Gross profit | 8,119 | 38.9% | 2,125 | 44.4% | 5,993 | n.a. |
| 10 | Other income | 0 | 0.0% | 2 | 0.0% | (2) | -100.0% |
| 11 | Cost of services | (2,837) | -13.6% | (392) | -8.2% | (2,445) | n.a. |
| 12 | Rent and leasing | (40) | -0.2% | (16) | -0.3% | (24) | n.a. |
| 13 | Payroll costs | (909) | -4.4% | (667) | -13.9% | (242) | 36.3% |
| 14 | Other operating expenses | (121) | -0.6% | (132) | -2.8% | 11 | -8.4% |
| 15 | Total operating expenses | (3,907) | -18.7% | (1,207) | -25.2% | (2,700) | n.a. |
| 16 | EBITDA | 4,211 | 20.2% | 920 | 19.2% | 3,291 | n.a. |
| 17 | Depreciation and amortization | (38) | -0.2% | (6) | -0.1% | (32) | n.a. |
| 18 | Provisions | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 19 | Asset impairment charge | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 20 | Impairment reversal | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 21 | Total depreciation, amortization and impairment | (38) | -0.2% | (6) | -0.1% | (32) | n.a. |
| 22 | EBIT | 4,173 | 20.0% | 914 | 19.1% | 3,259 | n.a. |

The trend in gross revenues was especially vibrant. Totalling €24,222 thousand for the period, they increased by €18,511 thousand with respect to the previous year's €5,711 thousand. The growth in turnover reflects a flurry of international license acquisitions and the healthy development of the foreign distribution network, especially through the subsidiaries 505 Games Ltd. and Digital Bros France S.a.r.l.

Net revenues show a similar year-on-year trend. They grew somewhat more slowly than gross sales because of a €2,449 thousand increase in revenue adjustments. This reflects a higher estimate of potential returns, which was not necessary last year because the distribution network was in its inception (particularly in France and the United Kingdom), and an increase in costs directly related to revenues such as year-end customer discounts.

The policy of content expansion pursued by the Group in the last two years now gives it more than 120 international licenses for video games, of which many are already in stores, including “Arma: Armed Assault” for computers, “Cooking Mama” for Nintendo DS and Nintendo Wii, and “Armored Core” for

Sony Playstation 3. Licenses for games to be rolled out in coming months include “Destiny of Zorro” for Nintendo Wii, “Cooking Mama 2” and “Kira Kira” for Nintendo DS, and “Lupin 3” for Sony Playstation 2.

Profitability was especially high during the period, as sales of the new Nintendo DS games “Fashion Designer,” “My Pet Dolphin” and “I Did It Mum” were complemented by the ongoing success of games launched the previous year, particularly “Cooking Mama” for Nintendo DS and Wii and “Bust a Move” for Nintendo Wii.

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

| EUR/000 | 1H 2007-2008 | 1H 2006-2007 | Change | |
|---|---------------|--------------|---------------|------------|
| Publishing of video games for consoles | 22,641 | 5,706 | 16,935 | n.a |
| Publishing of video games for PC/CD-ROM | 1,566 | 0 | 1,566 | n.a |
| Publishing of other products and services | 15 | 5 | 10 | n.a |
| Total gross revenues | 24,222 | 5,711 | 18,511 | n.a |

The rise in gross revenues from PC/CD-ROM games (€1,566 thousand) is due essentially to the sale of “ArmaA: Queens Gambit,” the sequel to “ArmaA: Armed Assault,” which continued to do well after its launch in the second half of last year.

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 | 1H 2007-2008 | | 1H 2006-2007 | | Change | |
|--|------------------|---------------|----------------|--------------|---------------|---------------|
| | Units | Revenues | Units | Revenues | Units | Revenues |
| Sony Playstation 2 | 66,129 | 525 | 280,664 | 2,822 | -76.4% | -81.4% |
| Sony Playstation 3 ⁽¹⁾ | 3,303 | 121 | 0 | 0 | n.a | n.a |
| Nintendo Wii ⁽²⁾ | 182,378 | 5,225 | 0 | 0 | n.a | n.a |
| Microsoft Xbox 360 | 6,245 | 188 | 64 | 1 | n.a | n.a |
| Nintendo DS | 887,725 | 16,131 | 185,545 | 2,662 | 378.4% | 506.0% |
| Sony PSP | 26,761 | 449 | 38,829 | 212 | -31.1% | 112.0% |
| Other consoles | 494 | 2 | 833 | 9 | -40.7% | -77.3% |
| Total revenues from publishing for consoles | 1,173,035 | 22,641 | 505,935 | 5,706 | 131.9% | 296.8% |

⁽¹⁾ launched in March 2007

⁽²⁾ launched in December 2006

The increase in International Publishing revenues with respect to the first half of last year is explained primarily by the strong penetration of games for today's most popular consoles, such as Nintendo DS and Nintendo Wii. These games make up 91% of products sold during the period, and were the focus of the Group's efforts to acquire international licenses. In particular, the success of video games for Nintendo DS stems from the launch of simple, user-friendly games that are perfect for players ranging from teenage girls to young children.

This success offset the decline in game sales for the Sony Playstation 2, caused largely by the lack of games published during the quarter by the joint venture D3DB, of which the Group owns 50%.

The trend in average video game prices per console is shown below:

| EUR/000 | 1H 2007-2008 | 1H 2006-2007 | Change |
|----------------------|---------------------|---------------------|---------------|
| Sony Playstation 2 | 8.3 | 10.1 | -17.6% |
| Sony Playstation 3 | 36.6 | n.a. | n.a. |
| Nintendo Wii | 28.7 | n.a. | n.a. |
| Microsoft Xbox 360 | 30.0 | 15.6 | 92.3% |
| Nintendo DS | 18.2 | 14.3 | 26.7% |
| Sony PSP | 13.0 | 5.5 | 137.2% |
| Other consoles | 3.3 | 12.0 | -72.3% |
| Average price | 19.4 | 11.3 | 71.8% |

The cost of sales increased by €10,068 thousand, from €2,667 thousand to €12,735 thousand, which was less than the rise in net revenues (€16,062 thousand). Due essentially to the good performance of this segment, the trend also reflects an increase of €1,205 thousand in royalty costs (+74.8%), but was less than proportional to the rise in turnover thanks to the better exploitation of licenses.

As mentioned above, the new method of accounting for royalties, introduced in the second half of last year, would have reduced EBITDA by €620 thousand for the half-year to 31 December 2006. The increase in EBITDA between that period and the first half of 2007-2008 as a result of the new accounting method would therefore be 21.9%, or €1,405 thousand.

Operating expenses were up by €2,700 thousand, from €1,207 thousand to €3,907 thousand, due to an increase in the cost of physically producing and localizing games (€500 thousand) and in the cost of international advertising investments (€1,800 thousand), and to an increase of €242 thousand in payroll expenses because of the larger headcount at foreign subsidiaries.

The hearty growth of the International Publishing segment is clear from its EBITDA figure of €4,211 thousand, a rise of €3,291 thousand on the same period last year, which is mirrored by an EBIT increase of €3,259 thousand.

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 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.

Key results

| | EUR/000 | Newsstands | | | | | |
|-----------|--|--------------|---------------|--------------|---------------|--------------|---------------|
| | | 1H 2007-2008 | | 1H 2006-2007 | | Change | |
| 1 | Gross revenues | 1,036 | 106.4% | 1,593 | 100.0% | (557) | -35.0% |
| 2 | Revenue adjustments | (62) | -6.4% | 0 | 0.0% | (62) | n.a. |
| 3 | Total net revenues | 974 | 100.0% | 1,593 | 100.0% | (619) | -38.9% |
| 4 | Purchase of goods for resale | (1,070) | -109.8% | (291) | -18.3% | (779) | n.a. |
| 5 | Purchase of services for resale | (126) | -12.9% | (212) | -13.3% | 86 | -40.8% |
| 6 | Royalties | (294) | -30.2% | (371) | -23.3% | 77 | -20.6% |
| 7 | Change in inventories of finished products | 946 | 97.1% | 0 | 0.0% | 946 | 100.0% |
| 8 | Total cost of goods sold | (544) | -55.8% | (874) | -54.8% | 330 | -37.8% |
| 9 | Gross profit | 431 | 44.2% | 720 | 45.2% | (289) | -40.2% |
| 10 | Other income | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 11 | Cost of services | (403) | -41.4% | (152) | -9.5% | (251) | n.a. |
| 12 | Rent and leasing | 0 | 0.0% | (8) | -0.5% | 8 | -100.0% |
| 13 | Payroll costs | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 14 | Other operating expenses | (2) | -0.2% | (51) | -3.2% | 49 | -97.0% |
| 15 | Total operating expenses | (405) | -41.5% | (212) | -13.3% | (193) | 91.2% |
| 16 | EBITDA | 26 | 2.7% | 508 | 31.9% | (482) | -94.9% |
| 17 | Depreciation and amortization | (2) | -0.2% | (5) | -0.3% | 3 | -59.7% |
| 18 | Provisions | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 19 | Asset impairment charge | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 20 | Impairment reversal | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 21 | Total depreciation, amortization and impairment | (2) | -0.2% | (5) | -0.3% | 3 | -59.7% |
| 22 | EBIT | 24 | 2.4% | 503 | 31.5% | (479) | -95.3% |

Revenues were earned from the distribution of the following products:

- the DVD series “WWE Wrestling Megastars” and “Greatest Hits,” on the lives of popular wrestlers;
- the first issues of “DVD-games,” a new series of games played on a DVD player using the remote control, based on popular Dreamworks titles;
- the game series “The Sims,” a real-life simulation game, distributed as an add-on with newspapers published by the RCS Group;

- the “Maxima 2” and “Maxima 3” series of video games for PC/CD-ROM, also sold as add-ons to RCS Group newspapers.

Total net revenues amounted to €74 thousand, showing a decrease on the same period last year due mainly to lower sales of the series “DVD-games.”

The cost of sales, at €44 thousand, decreased in line with the trend in turnover. Operating expenses (+€193 thousand) are limited by having the distribution process managed by newsstands.

As a result of performance during the half-year, EBITDA came to 2.7% of total net revenues and the EBIT margin to 2.4%.

Holding

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

Key results

| | EUR/000 | Holding | | | | | |
|-----------|--|--------------|-------------|--------------|-------------|--------------|---------------|
| | | 1H 2007-2008 | | 1H 2006-2007 | | Change | |
| 1 | Gross revenues | 0 | n.a. | 0 | n.a. | 0 | n.a. |
| 2 | Revenue adjustments | 0 | n.a. | 0 | n.a. | 0 | n.a. |
| 3 | Total net revenues | 0 | n.a. | 0 | n.a. | 0 | n.a. |
| 4 | Purchase of goods for resale | 0 | n.a. | 0 | n.a. | 0 | n.a. |
| 5 | Purchase of services for resale | 0 | n.a. | 0 | n.a. | 0 | n.a. |
| 6 | Royalties | 0 | n.a. | 0 | n.a. | 0 | n.a. |
| 7 | Change in inventories of finished products | 0 | n.a. | 0 | n.a. | 0 | n.a. |
| 8 | Total cost of goods sold | 0 | n.a. | 0 | n.a. | 0 | n.a. |
| 9 | Gross profit | 0 | n.a. | 0 | n.a. | 0 | n.a. |
| 10 | Other income | 0 | n.a. | 0 | n.a. | 0 | n.a. |
| 11 | Cost of services | (49) | n.a. | (57) | n.a. | 8 | -13.6% |
| 12 | Rent and leasing | (4) | n.a. | (1) | n.a. | (3) | n.a. |
| 13 | Payroll costs | (586) | n.a. | (548) | n.a. | (38) | 7.0% |
| 14 | Other operating expenses | (247) | n.a. | (77) | n.a. | (170) | 219.3% |
| 15 | Total operating expenses | (886) | n.a. | (682) | n.a. | (204) | 29.8% |
| 16 | EBITDA | (886) | n.a. | (682) | n.a. | (204) | 29.8% |
| 17 | Depreciation and amortization | (85) | n.a. | (276) | n.a. | 191 | -69.2% |
| 18 | Provisions | 0 | n.a. | 0 | n.a. | 0 | 0.0% |
| 19 | Asset impairment charge | 0 | n.a. | 0 | n.a. | 0 | 0.0% |
| 20 | Impairment reversal | 0 | n.a. | 0 | n.a. | 0 | 0.0% |
| 21 | Total depreciation, amortization and impairment | (85) | n.a. | (276) | n.a. | 191 | -69.2% |
| 22 | EBIT | (971) | n.a. | (958) | n.a. | (13) | 1.3% |

The cost structure is essentially the same as it was last year; operating expenses include directors' fees approved at the latest shareholders' meeting and general and entertainment expenses not allocable to other segments.

Depreciation, amortization and writedowns refer to the depreciation of the Group's warehouse at Trezzano sul Naviglio and the amortization of brands. The reduction is due essentially to the previous year's writedown of the Game Network brand, previously used for retail operations conducted over the satellite channel.

CONTINGENT ASSETS AND LIABILITIES

In May 2006, the parent company was audited by the local revenue office with regard to direct taxes and VAT for fiscal year 2002-2003. The assessment notice was received on 12 October 2007, but the Group still feels that no tax liability will arise.

There were no other contingent assets or liabilities at 31 December 2007.

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 under arm's-length conditions and do not qualify as atypical or unusual transactions.

Non-consolidated subsidiaries

Below are key figures for the non-consolidated subsidiary D3DB S.r.l. (held 50%) at 31 December 2007:

| EUR/000 | |
|----------------------------------|---------|
| Assets | 1,219 |
| Capital and reserves | 10 |
| Liabilities | (1,229) |
| | |
| Revenues | 0 |
| Costs | (12) |
| Net profit (loss) for the period | (12) |

Key figures at 31 December 2007 for the non-consolidated company RCS DB Games S.p.A. (held 49%) are as follows:

| EUR/000 | |
|----------------------------------|-------|
| Assets | 1,535 |
| Capital and reserves | (918) |
| Liabilities | (617) |
| | |
| Revenues | 55 |
| Costs | (637) |
| Net profit (loss) for the period | (582) |

Subsidiaries

The period-end balances of commercial and financial transactions between Group companies (settled under arm's-length conditions) are shown below:

| EUR/000 | Receivables | | Payables | | Receivables | Payables |
|------------------------------|--------------------|---------------|-----------------|--------------|--------------------|-----------------|
| | comm. | fin. | comm. | fin. | | |
| 505 Games S.r.l. | 3,995 | 4,616 | (282) | 0 | 148 | (2,014) |
| Game Media Networks S.r.l. | 770 | 3,711 | 0 | 0 | 398 | 0 |
| Game Service S.r.l. | 399 | 2,148 | 0 | 0 | 3,448 | 0 |
| Game Entertainment S.r.l. | 2,433 | 0 | 0 | (288) | 1,130 | (10) |
| Digital Bros France S.a.r.l. | 0 | 400 | 0 | 0 | 0 | 0 |
| 505 Games Ltd. | 0 | 1,086 | 0 | 0 | 0 | 0 |
| Total | 7,597 | 11,961 | (282) | (288) | 5,124 | (2,024) |

Other related parties

Transactions with other related parties consist of the legal counsel provided by director Dario Treves, who received €4 thousand for the period.

Group tax election

Digital Bros S.p.A., in its capacity as parent company/consolidating company, has opted for the “group tax election” now provided for 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.

MANAGEMENT OF FINANCIAL RISKS

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

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

The purpose of these instruments is to finance the Company'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.

The Company maintains a balance between short-term and long-term financial instruments. The Company's core business, the marketing of video games, entails investments 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 (the Company purchased a warehouse under a floating-rate finance lease, which was later switched to a fixed-rate lease by means of an interest rate swap).

Given the above, financial payables have a well-distributed range of maturities.

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

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

Interest rate risk

Exposure by the Company's financial instruments to interest rate fluctuations is marginal for the medium- and long-term instruments, which were originally designated as fixed-rate instruments or else 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 Company cannot immediately transfer the higher rates to its prices. These risks are reduced by:

- business with an extensive number of banks and financial institutions, giving the Company a competitive edge in the negotiation of interest rate spreads;
- 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 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

The Company's activities present no significant liquidity risk. Due to the seasonal nature of its business, which entails higher debt in the autumn, it usually obtains seasonal “self-liquidating” credit lines from banks and financial institutions on the basis of the needs presented by its budget.

Exchange rate risk

The Company is not heavily influenced by exchange rate fluctuations. Purchases in currencies other than the euro are marginal, and are almost entirely in British pounds. Royalties on international video game exploitation rights are paid in Japanese yen. Payments are made in advance, so the company knows the actual cost of royalties ahead of time and is able to transfer any higher charges due to exchange rates onto its prices.

Credit risk

In Italy the Company 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.

Because the Company operates mainly in the highly fragmented Italian distribution market, risks are not concentrated on any individual parties.

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, the Company has insurance covering the buyers that the credit committee deems less solvent and/or those with credit facilities of €250 thousand to €500 thousand. The insurance policy does not eliminate all credit risk on the buyers covered, but considerably limits potential losses.

For international operations, credit insurance policies are in place for all but the Spanish distributor, whose sales are modest, and for transactions with mass retailers in France, which the parent company does not feel are excessively risky.

OTHER INFORMATION

Employees

Below are the details of the period-end workforce with comparative figures at 30 June 2007:

| Category | 31 December 2007 | 30 June 2007 | Change |
|--------------------------|-------------------------|---------------------|---------------|
| Executives | 8 | 8 | 0 |
| White collar | 96 | 84 | 12 |
| Blue collar and trainees | 10 | 10 | 0 |
| Total employees | 114 | 102 | 12 |

DECLARATION BY THE FINANCIAL REPORTING OFFICER

Declaration pursuant to Art. 81-*ter* of the CONSOB Regulations for Issuers (no. 11971 of 14 May 1999, as amended).

1. We, the undersigned, Abramo Galante as chairman of the Board of Directors and Stefano Salbe as financial reporting officer of Digital Bros S.p.A., hereby declare in accordance with Art. 154-*bis*, paras. 3 and 4 of Legislative Decree 58 of 24 February 1998:
 - the adequacy of the administrative and accounting procedures in relation to the Group's characteristics; and
 - due compliance with said procedures for preparation of the consolidated half-year report at 31 December 2007.

2. No significant findings have come to light in this respect.

3. We also declare that the consolidated half-year report at 31 December 2007:
 - a) corresponds to the ledgers and accounting entries;
 - b) has been prepared in accordance with the IAS/IFRS published by the International Accounting Standards Board (IASB) at 31 December 2007 and approved by the European Union, and to the best of our knowledge provides a fair and truthful disclosure of the financial status and performance of Digital Bros S.p.A. and of the companies included in the consolidation.

Signed

Abramo Galante
Chairman of the Board of Directors

Signed

Stefano Salbe
Financial Reporting Officer